AMB Financial Corp.
7880 Wicker Ave.
St. John, Indiana 46373

Financial Report
For the Three and Nine Months Ended
September 30, 2020

Note: This report is intended to be read in conjunction with our Annual Report to Stockholders for the year ended December 31, 2019, copies of which are included on this website. This report is dated September 30, 2020 and should not be read to cover any subsequent periods. We specifically disclaim any obligation to update this report even if the contents thereof should become misleading.

This report has not been prepared in accordance with Securities and Exchange Commission rules applicable to public companies and is not intended to comply with such rules.

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AMB Financial Corp. and Subsidiaries
Consolidated Balance Sheets

Assets	September 30, 2020 (unaudited)	December 31, 2019 (audited)
Cash and amounts due from depository institutions	$ 2,334,779	$ 1,886,373
Interest-bearing deposits	25,924,652	18,241,353
Total cash and cash equivalents	28,259,431	20,127,726
Mortgage backed securities, available for sale, at fair value	6,525,959	8,244,821
Stock in Federal Home Loan Bank of Indianapolis, at cost	1,372,000	1,372,000
Loans held for sale	3,350,087	924,170
Loans receivable (net of allowance for loan losses) $2,407,540 at September 30, 2020 and $2,150,000 at December 31, 2019)	199,475,616	181,025,719
Other real estate owned	2,236,956	1,217,567
Accrued interest receivable	762,020	709,546
Office properties and equipment- net	9,442,872	9,596,876
Bank owned life insurance	3,805,757	3,840,169
Prepaid expenses and other assets	1,596,219	1,519,612
Total assets	$ 256,826,917	$ 228,578,206
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$ 219,920,697	$ 193,294,379
Borrowed money	10,172,947	10,172,947
Junior subordinated debentures	3,093,000	3,093,000
Other liabilities	2,440,131	2,338,422
Total liabilities	$ 235,626,775	$ 208,898,748
Stockholders' Equity		
Common Stock, $.01 par value; authorized 1,900,000 shares; 1,683,641 shares issued and 967,712 outstanding at September 30, 2020 and 965,352 outstanding at December 31, 2019	$ 16,837	$ 16,837
Additional paid-in capital	11,692,630	11,665,843
Retained earnings	17,372,980	16,022,234
Accumulated other comprehensive income (loss), net of tax	161,048	44,400
Treasury stock, at cost (715,929 shares outstanding at September 30, 2020 and 718,289 shares outstanding at December 31, 2019)	(8,043,353)	(8,069,856)
Total stockholders' equity	$ 21,200,142	$ 19,679,458
Total liabilities and stockholders' equity	$ 256,826,917	$ 228,578,206

See accompanying notes to audited consolidated financial statements.

AMB Financial Corp. and Subsidiaries
Consolidated Statements of Income
(unaudited)

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Interest income				
Interest on Loans	2,142,920	$ 2,205,585	6,499,353	$ 6,600,337
Interest on mortgage-backed securities	30,265	46,463	113,309	128,645
Interest on interest-bearing deposits	7,218	86,361	64,765	251,896
Dividends on Federal Home Loan Bank stock	12,052	19,020	34,230	59,898
Total interest income	$ 2,192,455	$ 2,357,429	$ 6,711,657	$ 7,040,776
Interest expense				
Interest on deposits	388,955	$ 633,496	$ 1,347,182	$ 1,752,955
Interest on borrowings	71,726	90,302	226,659	272,907
Total interest expense	$ 460,681	$ 723,798	$ 1,573,841	$ 2,025,862
Net interest income	$ 1,731,774	$ 1,633,631	$ 5,137,816	$ 5,014,914
Provision for loan losses	150,000	50,000	481,186	70,000
Net interest income after provision for loan losses	$ 1,581,774	$ 1,583,631	$ 4,656,630	$ 4,944,914
Non-interest income:				
Loan fees and service charges	292,771	$ 126,158	$ 542,644	$ 340,908
Deposit related fees	72,025	75,186	208,469	235,417
Other fee income	22,349	20,377	64,504	67,768
Rental Income	73,238	115,335	263,646	290,578
Gain on sale of loans	722,338	193,060	1,547,250	387,284
Net (loss) gain on sale of other real estate owned	(35,054)	(1,082)	(30,814)	9,747
Increase in cash surrender value of life insurance	18,181	19,637	53,870	62,079
Benefit from bank-owned life insurance	13,242	-	13,242	-
Other income	21,835	63,716	83,257	96,851
Total non-interest income	$ 1,200,925	$ 612,387	$ 2,746,068	$ 1,490,632
Non-interest expense:				
Staffing costs	$ 1,128,352	$ 958,977	$ 3,116,565	$ 2,903,378
Advertising	54,159	84,441	118,529	185,967
Occupancy and equipment expense	230,829	197,802	678,569	591,078
Data processing	202,150	187,922	605,455	542,491
Professional fees	84,765	62,148	186,173	183,284
Federal deposit insurance premiums	36,656	-	113,038	77,325
Insurance expense	28,384	28,021	79,565	78,420
Other operating expenses	252,041	296,508	686,288	725,254
Total non-interest expense	$ 2,017,336	$ 1,815,819	$ 5,584,182	$ 5,287,197
Income before income taxes	$ 765,363	$ 380,199	$ 1,818,516	$ 1,148,349
Income tax expense	199,575	101,431	467,773	298,855
Net income available to common shareholders	565,788	278,768	1,350,743	849,494
Earnings per common share:				
Basic	$ 0.59	$ 0.29	$ 1.40	$ 0.87
Diluted	$ 0.58	$ 0.29	$ 1.39	$ 0.87

See accompanying notes to audited consolidated financial statements.

AMB Financial Corp. and Subsidiaries
Consolidated Statements of Comprehensive Income
(unaudited)

	Nine Months Ended September 30,	
	2020	2019
Net income	$ 1,350,743	$ 849,494
Other comprehensive (loss) income, net of tax:		
Unrealized gains on securities		
available for sale--		
Unrealized holding gain (loss) arising during the period	116,648	103,724
Other comprehensive income (loss), net of tax	116,648	103,724
Total comprehensive income	$ 1,467,391	$ 953,218

See accompanying notes to audited consolidated financial statements.

AMB Financial Corp. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
For the Nine Months Ended September 30, 2020 and 2019
(unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 2018	$ 16,837	$11,610,546	$14,673,158	$ (49,517)	$ (7,733,978)	$18,517,046
Net income			849,494			849,494
Other comprehensive income, net of tax				103,724		103,724
Vesting of 2,430 share of Restricted Stock Issued from Treasury Stock		(27,229)			27,229	
Stock-based compensation expense		54,793				54,793
Common sharees repurchased - Retired as Treasury stock					(326,347)	(326,347)
Balance at September 30, 2019	$ 16,837	$11,638,110	$15,522,652	$ 54,207	$ (8,033,096)	$19,198,710
Balance at December 31, 2019	$ 16,837	$11,665,843	$16,022,234	$ 44,400	$ (8,069,856)	$19,679,458
Net income			1,350,743			1,350,743
Other comprehensive income, net of tax				116,648		116,648
Vesting of 2,360 share of Restricted Stock Issued from Treasury Stock		(26,503)			26,503	-
Stock-based compensation expense		53,290				53,290
Balance at September 30, 2020	$ 16,837	$11,692,630	$17,372,977	$ 161,048	$ (8,043,353)	$21,200,142

See accompanying notes to audited consolidated financial statements.

AMB Financial Corp. and Subsidiaries

Consolidated Statements of Cash Flows

	Nine Months Ended September 30, 2020	2019
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 1,350,743	$ 849,494
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	328,510	301,181
Amortization of premiums and accretion of discounts	60,741	(93,709)
Proceeds from sale of loans originated for sale	67,057,566	19,451,793
Loans originated for sale	(65,976,075)	(19,193,422)
Gain on sale of loans	(1,547,250)	(387,284)
Loss (gain) on sale of other real estate owned	30,814	(9,747)
Provision for loan losses	481,186	70,000
Stock based compensation expense	53,290	54,793
Net change in:		
Increase in cash surrender value of life insurance	(53,870)	(62,079)
Increase in deferred yield adjustments on loans	856,290	42,822
Increase in prepaid and deferred income taxes	(150,671)	(248,429)
Decrease (increase) in accrued interest receivable	(52,474)	(520)
Decrease in other assets	355,738	379,802
Increase in other liabilites	238,066	518,014
Net cash provided by (for) operating activities	3,032,604	1,672,709
Cash flows from investing activities:		
Purchase of mortgage-backed securities	(500,000)	(3,999,916)
Proceeds from repayments of mortgage-backed securities	2,322,500	1,167,463
Change in loans held for sale	(2,425,917)	824,728
Net increase in loans	(20,994,635)	(4,730,722)
Real estate owned expenditures	(67,060)	(11,108)
Proceeds from sale of other real estate owned	224,119	590,598
Proceeds from the sale of other assets	36,835	-
Proceeds from redemption of life insurance	88,282	-
Property and equipment expenditures, net	(211,341)	(430,737)
Net cash used for investing activities	(21,527,217)	(6,589,694)
Cash flows from financing activities:		
Net increase in deposits	26,399,713	(1,154,373)
Net (decrease) in advance payments by borrowers for taxes and insurance	226,605	381,237
Issuence of restricted shares on common stock	(26,503)	27,229
Share repurchase program common stock	26,503	(326,347)
Net cash provided by financing activities	26,626,318	(1,072,254)
Net change in cash and cash equivalents	8,131,705	(5,989,239)
Cash and cash equivalents at beginning of period	20,127,726	28,615,335
Cash and cash equivalents at end of period	$ 28,259,431	$ 22,626,096
Supplemental disclosure of cash flow information:		
Interest paid	$ 1,569,599	$ 2,025,534
Income taxes paid	298,000	135,000
Transfer of loans to other real estate owned	1,207,262	1,629,209

See accompanying notes to audited consolidated financial statements.

AMB Financial Corp. and Subsidiaries
Earnings Per Share
(Unaudited)

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019
Net income available to common shareholders	$ 565,788	$ 278,768
Weighted average common shares outstanding for basic computation	966,917	967,187
Basic income per common share	$ 0.59	$ 0.29
Weighted average common shares outstanding for basic computation	966,917	967,187
Common stock equivalents due to dilutive effect of restricted stock	3,434	3,307
Weighted average common shares and equivalents outstanding for diluted computation	970,351	970,494
Diluted income per common share	$ 0.58	$ 0.29

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Net income available to common shareholders	$ 1,350,743	$ 849,494
Weighted average common shares outstanding for basic computation	965,877	973,231
Basic income per common share	$ 1.40	$ 0.87
Weighted average common shares outstanding for basic computation	965,877	973,231
Common stock equivalents due to dilutive effect of restricted stock	3,434	3,307
Weighted average common shares and equivalents outstanding for diluted computation	969,311	976,538
Diluted income per common share	$ 1.39	$ 0.87

See accompanying notes to audited consolidated financial statements

AMB Financial Corp
And Subsidiaries

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 three and nine month periods ended September 30, 2020 and should not be read to cover any other periods.

Notes to Consolidated Financial Statements. The accompanying unaudited consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America and in the opinion of management contain all adjustments (all of which are normal and recurring in nature) necessary for a fair presentation. The results of operations for the three and nine months ended September 30, 2020 are not necessarily indicative of the results expected for the year ending December 31, 2020. The September 30, 2020 consolidated financial statements should be read in conjunction with the consolidated financial statements and notes for the year ended December 31, 2019 included in the Company's Annual Report. The Company's consolidated statement of condition as of December 31, 2019 has been derived from the Company's audited consolidated statement of condition as of that date.

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that could have a material effect on the carrying value of certain assets and liabilities. These estimates and assumptions affect the amounts reported in the consolidated financial statements and the disclosures provided. The determination of the allowance for loan losses, valuations and impairments of investment securities, and the accounting for income tax expense are highly dependent on management's estimates and assumptions where changes in any of these could have a significant impact on the financial statements.

The consolidated financial statements include the accounts of AMB Financial Corp. (the "Company"), and its wholly-owned subsidiary, American Community Bank of Indiana (the "Bank").

Earnings per Share. Earnings per share for the three and nine month periods ended September 30, 2020 and 2019 were determined by dividing net income available to common shareholders for the periods by the weighted average number of both basic and diluted shares of common stock, as well as common stock equivalents outstanding.

Reclassifications. Certain 2019 items or amounts may have been reclassified or restated to conform to the 2020 presentation.

Management's Discussion and Analysis of Financial Condition and Results of Operations

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 Financial 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, which 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 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 which may rise;
- 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 decline in loan demand and real estate values within our local market;
- 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 impact of any new government foreclosure relief and loan modification programs;
- 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 COVID-19 pandemic has caused substantial disruption to the global, national, and local economies which may have an adverse effect on the Company's business and results of operations. The future impacts of the COVID-19 pandemic on the global economy and the Company's business, results of operations and financial condition remains uncertain.

In March 2020, the World Health Organization declared novel coronavirus disease 2019 (COVID-19) as a global pandemic. The pandemic has resulted in governmental authorities implementing numerous measures attempting to contain the spread and impact of COVID-19 such as travel bans and restrictions, quarantines, shelter in place orders, and limitations on business activities, including in markets in which the Company and its clients are located or do business. The COVID-19 pandemic, and governmental responses to the pandemic, have negatively impacted the economy, creating significant volatility and disruption in financial markets, and increased unemployment levels.

Should current economic impacts persist or continue to deteriorate, this economic environment could have an adverse effect on our business and operations, including, but not limited to, decreased demand for the Company's products and services, protracted periods of lower interest rates, loss of income resulting from deferrals and fee waivers provided by the Company to its consumer and commercial borrowers, increased credit losses due to deterioration in the financial condition of our consumer and commercial borrowers, including declining asset and collateral values, which may result in increases in provision for credit losses and net charge-offs. The business operations of the Company may also be disrupted if significant portions of its workforce or those of vendors or third-party service providers are unable to work effectively, including because of illness, quarantines, government actions, restrictions in connection with the pandemic, and technology limitations and/or disruptions. The Company also faces an increased risk of litigation and governmental and regulatory scrutiny because of the effects of the pandemic on market and economic conditions and actions taken by governmental authorities in response to those conditions.

The extent to which the COVID-19 pandemic impacts the Company's business, results of operations, and financial condition, as well as its regulatory capital ratios, will depend on future developments, which are highly uncertain, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic. Moreover, the effects of the COVID-19 pandemic may heighten many of the other risks described in the section entitled "Forward Looking Statements" in our most recent Annual Report or any subsequent Quarterly Report including, but not limited to, financial market conditions, economic conditions, credit risk, interest rate risk and risk of security breaches.

The Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), the Consumer Financial Protection Bureau (CFPB), and the State Banking Regulators (hereafter, the agencies) provided guidance to financial institutions to work with borrowers affected by the COVID-19. The Company has established a loan deferral program to provide temporary relief for borrowers who are experiencing short-term financial or operational problems because of COVID-19. On September 30, 2020, eligible loan modifications under Section 4013, Temporary Relief from Troubled Debt Restructurings, of the 2020 Coronavirus Aid, Relief, and Economic Security Act totaled $2.4 million consisting of 6 loans. The Company is communicating with impacted customers to determine if such borrowers are still experiencing short-term financial or operational problems because of COVID-19 and if further relief will be needed. Loans with deferrals granted due to COVID-19 are not reported as past due per regulatory guidance.

Financial Condition. Total assets of the Company were $256.8 million on September 30, 2020, an increase of $28.2 million, from $228.6 million on December 31, 2019. The change was primarily due to an $8.1 million increase in cash and cash equivalents, a $18.4 million increase in loans receivable and a $2.4 million increase in loans held for sale. There was also a $26.6 million increase in customer deposits.

Cash and cash equivalents, which consist primarily of interest-earning deposits, totaled $28.3 million on September 30, 2020, an increase of $8.2 million, from $20.1 million on December 31, 2019. 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, decreased $1.8 million to $6.5 million on September 30, 2020, from $8.2 million on December 31, 2019. The decrease was the result of principal repayments totaling $2.3 million, offset, in part, by new purchases of $0.5 million and a $164,000 increase in the unrealized gain on available for sale mortgage-backed securities. The Company recorded an unrealized gain on available for sale mortgage-backed securities of $227,000 on September 30, 2020 compared to a $63,000 unrealized gain on December 31, 2019. 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 on September 30, 2020 and December 31, 2019. 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 $199.5 million on September 30, 2020, an $18.5 million increase from the $181.0 million balance on December 31, 2019. Loans held for sale totaled $3.4 million on September 30, 2020, a $2.5 million increase from the $0.9 million balance on December 31, 2019. The increase in loans was primarily impacted by the Company’s participation in the Small Business Administration’s Paycheck Protection Program (SBA PPP). Section 1102 of the CARES Act temporarily adds a new product, titled the “Paycheck Protection Program,” to the U.S. Small Business Administration's (SBA's) 7(a) Loan Program. Section 1106 of the Act provides for forgiveness of up to the full principal amount of qualifying loans guaranteed under the Paycheck Protection Program. The Paycheck Protection Program and loan forgiveness was designed to provide a direct incentive for small businesses to keep their workers on the payroll due to disruptions caused by COVID-19. On September 30, 2020, SBA PPP net loans totaled $20.9 million. The Company originated $66.0 million of loans held for sale which were subsequently sold during the nine month period ended September 30, 2020, as compared to $19.2 million during the prior year period. The increase in loan sales is due to the substantial decline in interest rates which has accelerated refinancing activity. 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 $2,408,000 on September 30, 2020, representing a $258,000 increase as compared to December 31, 2019. The Bank's allowance for loan losses to total loans was 1.19% on September 30, 2020 as compared to 1.17% on December 31, 2019. 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.

The following table sets forth the activity in the allowance for loan losses for the nine months ended September 30, 2020 and 2019.

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Balance at beginning of period:	$2,150,000	$1,990,574
Charge-offs:		
One- to four family	305,000	12,102
Multi-family	-	-
Non-residential	-	-
Land	-	-
Construction	-	1,485
Home Equity Lines of Credit	-	92,003
Consumer	-	-
Commercial business	-	-
Total charge-offs	305,000	105,590
Recoveries:		
One- to four family	65,734	37,566
Multi-family	-	-
Non-residential	9,480	-
Land	-	-
Consumer	5,511	-
Commercial business	629	72
Total recoveries	81,354	37,638
Net (charge-offs) recoveries	(223,646)	(67,952)
Provisions for loan losses	481,186	70,000
Balance at end of period	$2,407,540	$1,992,622
Ratio of net (charge-offs) recoveries during the period to average gross loans outstanding during the period	(0.12)%	(0.04)%
Ratio of net (charge-offs) recoveries during the period to average non-performing loans during the period	(11.39)%	(3.30)%

Loans receivable are summarized as follows at the dates indicated:

	September 30, 2020	December 31, 2019
Mortgage loans:		
One-to-four family	$ 60,355,281	$ 63,990,654
Multi-family	3,973,441	5,370,038
Non-residential	74,254,939	71,949,284
Construction	9,588,149	10,495,108
Land	7,390,499	8,193,394
Equity lines of credit	8,216,590	10,030,826
Consumer	1,066,349	818,734
Commercial business loans - SBA PPP	20,865,165	-
Commercial business loans - other	16,172,743	12,327,681
Total loans	201,883,156	183,175,719
Less:		
Allowance for loan losses	2,407,540	2,150,000
Loans receivable, net	$ 199,475,616	$ 181,025,719
Allowance for loan losses as a percentage of loans	1.19%	1.17%

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.

	September 30, 2020		December 31, 2019	
Substandard non-accruing loans:				
One- to four-family	$	634,081	$	1,998,377
Multi-family		-		334,761
Non-residential		279,612		386,917
Equity lines of credit		81,490		81,552
Other consumer		-		880
Total substandard non-accruing loans	$	995,183	$	2,802,487
Total loans receivable	$	201,883,156	$	183,175,719
Total non-accrual / loans receivable		0.49%		1.53%
Substandard – accruing loans				
Non-residential	$	-	$	557,952
Total substandard – accruing loans	$	-	$	557,952
Total loans receivable	$	201,883,156	$	183,175,719
Total substandard accruing / loans		0.00%		0.30%
Total classified loans	$	995,183	$	3,360,439
Total loans receivable	$	201,883,156	$	183,175,719
Total classified loans / loans receivable		0.49%		1.83%
Substandard other real estate owned:				
One- to four-family	$	1,784,399	$	1,047,717
Multi-family		332,261		-
Land	$	120,296	$	169,850
Total substandard other real estate	$	2,236,956	$	1,217,567
Total classified assets	$	3,232,139	$	4,578,006
Total assets	$	256,826,917	$	228,578,206
Total classified assets / total assets		1.26%		2.00%

Non-Performing Assets, Impaired Loans and Allowance for Loan Losses.

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method for the dates indicated:

	Allowance for Loan Losses					
	At September 30, 2020			At December 31, 2019		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
One-to-four family	$ 42,395	$ 599,994	$ 642,389	$ 209,467	$ 457,739	$ 667,206
Multi-family	-	34,561	34,561	-	33,616	33,616
Non-residential	-	1,170,370	1,170,370	14,791	965,738	980,529
Construction	-	134,208	134,208	-	135,365	135,365
Land	-	92,367	92,367	-	82,885	82,885
Equity lines of credit	-	100,803	100,803	-	101,483	101,483
Other consumer	-	30,713	30,713	-	21,743	21,743
Commercial business loans	-	202,128	202,128	-	127,173	127,173
Total	$ 42,395	$ 2,365,145	$ 2,407,540	$ 224,258	$ 1,925,742	$ 2,150,000

	Loan Balances					
	At September 30, 2020			At December 31, 2019		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
One-to-four family	$ 1,083,156	$ 59,272,125	$ 60,355,281	$ 2,218,291	$ 61,772,363	$ 63,990,654
Multi-family	-	3,973,441	3,973,441	334,761	5,035,277	5,370,038
Non-residential	279,612	73,975,327	74,254,939	386,917	71,562,367	71,949,284
Construction	-	9,588,149	9,588,149	-	10,495,108	10,495,108
Land	-	7,390,499	7,390,499	-	8,193,394	8,193,394
Equity lines of credit	81,490	8,135,100	8,216,590	81,552	9,949,274	10,030,826
Other consumer	-	1,066,349	1,066,349	880	817,854	818,734
Commercial business loans	-	37,037,908	37,037,908	-	12,327,681	12,327,681
Total	$ 1,444,258	$ 200,438,898	$ 201,883,156	$ 3,022,401	$ 180,153,318	$ 183,175,719

Impaired loans, which consist of the Company's non-accrual loans and troubled debt restructured loans, were as follows:

	September 30, 2020	December 31, 2019
Period end loans with allocated allowance for loan losses	$ 449,075	$ 1,879,007
Period end loans with no allocated allowance for loan losses	995,183	1,143,394
Total	$ 1,444,258	$ 3,022,402
Valuation reserve relating to impaired loans	$ 42,395	$ 224,258

The following table presents loans individually evaluated for impairment by class of loans as of the dates indicated:

	At September 30, 2020		At December 31, 2019	
	Unpaid Principal Balance	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Allowance for Loan Losses Allocated
With an allowance recorded:				
One-to-four family	$ 449,075	$ 42,395	$ 1,635,007	$ 209,467
Non-residential	-	-	244,001	14,791
With no related allowance recorded:				
One-to-four family	634,081	-	583,285	-
Multi-family	-	-	334,761	-
Non-residential	279,612	-	142,916	-
Equity lines of credit	81,490	-	81,552	-
Other consumer	-	-	880	-
Total	$ 1,444,258	$ 42,395	$ 3,022,402	$ 224,258

Nonaccrual loans are summarized as follows:

	September 30, 2020	December 31, 2019
One-to-four family	$ 634,081	$ 1,998,377
Multi-family	-	334,761
Non-residential	279,612	386,917
Equity lines of credit	81,490	81,552
Other consumer	-	880
Total	$ 995,183	$ 2,802,487

The following tables present the aging of the recorded investment in past due loans.

	September 30, 2020				
	30 - 89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans Not Past Due	Total
One-to-four family	$ 941,391	$ 513,589	$ 1,454,980	$ 58,900,301	$ 60,355,281
Multi-family	-	-	-	3,973,441	3,973,441
Non-residential	-	-	-	74,254,939	74,254,939
Construction	329,985	-	329,985	9,258,164	9,588,149
Land	103,228	-	103,228	7,287,271	7,390,499
Equity lines of credit	43,587	11,573	55,160	8,161,430	8,216,590
Other consumer	29,502	-	29,502	1,036,847	1,066,349
Commercial business loans	118,495	1,156	119,651	36,918,257	37,037,908
Total	$ 1,566,188	$ 526,318	$ 2,092,506	$ 199,790,650	$ 201,883,156

	December 31, 2019				
	30 - 89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans Not Past Due	Total
One-to-four family	$ 1,103,493	$ 1,659,170	$ 2,762,663	$ 61,227,991	$ 63,990,654
Multi-family	-	60,000	60,000	5,310,038	5,370,038
Non-residential	89,112	760,868	849,980	71,099,304	71,949,284
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

The Company has allocated $42,395 and $44,142 of loan loss reserves to customers whose loan terms have been modified in troubled debt restructurings as of September 30, 2020 and December 31, 2019, respectively.

The following table presents loans classified as troubled debt restructurings.

	September 30, 2020	December 31, 2019
Trouble debt restructured loans - non-accrual loans	$ -	$ 235,092
Trouble debt restructured loans - accrual loans	449,075	219,914
Total	$ 449,075	$ 455,006

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 sufficient 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 decreased $1.3 million to $3.2 million on September 30, 2020 as compared to December 31, 2019.

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 $1.0 million, or 0.49% of total loans receivable at September 30, 2020, compared to $2.8 million, or 1.53% of total loans receivable at December 31, 2019.

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 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 $0 were classified as performing substandard on September 30, 2020, compared to $558,000 on December 31, 2019. The loan totaling $558,000 was move from performing substandard to non-accrual substandard during the current year.

The ratio of allowance for loan losses to classified and criticized loans was 241.92% on September 30, 2020, compared to 63.98% on December 31, 2019.

Other real estate owned, which is classified substandard, totaled $2.2 million on September 30, 2020 as compared to $1.2 million on December 31, 2019. Other real estate owned on September 30, 2020 consists of four single family residential properties totaling $1.8 million, one multi-family residential property totaling $332,000 and three vacant residential building lots totaling $120,000. Other real estate owned properties are initially recorded at fair value less estimated cost to sell at acquisition, establishing a new cost basis. If the fair value declines after 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 $9.4 million on September 30, 2020, a $154,000 decrease from the balance on December 31, 2019. The decrease represents normal depreciation of $329,000, offset, in part, by additions totaling $211,000 and disposals totaling $36,000.

Bank owned life insurance decreased $34,000 to $3.8 million on September 30, 2020. The change represents redemption of life insurance totaling $88,000 due to a death benefit claim, offset, in part by a $54,000 increase in the cash surrender value of the life insurance policies. The policies were purchased in connection with deferred compensation plans utilized by directors and officers of the Company.

Prepaid expenses and other assets increased $77,000 to $1.6 million on September 30, 2020. Included in prepaid expenses and other assets is a $91,000 net deferred tax asset.

Total deposits increased $26.6 million to $219.9 million on September 30, 2020. The increase in deposits during the period was due to a $24.8 million increase in checking deposits, a $1.4 million increase in money market accounts and a $1.2 million increase in passbook deposits, offset, in part, by a $0.8 million decrease in certificates of deposit accounts. On September 30, 2020, the Bank's core deposits (passbook, checking and money market accounts) comprised $156.4 million, or 71.1% of deposits, compared to $129.0 million, or 66.7% of deposits, on December 31, 2019. 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 consists of FHLBI advances, totaled $10.2 million on September 30, 2020 and December 31, 2019. Borrowings from the FHLBI on September 30, 2020 had a weighted average rate of 2.18% and a weighted term to maturity of 1.8 years.

The Company's trust preferred subordinated debentures remained unchanged totaling $3.1 million on September 30, 2020. The interest rate payable on the debentures adjusts quarterly to the three month LIBOR plus 1.65% and was 1.90% on September 30, 2020. 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 $0.1 million totaling $2.4 million on September 30, 2020 as compared to December 31, 2019.

Total stockholders' equity increased $1.5 million to $21.2 million, or 8.25% of total assets on September 30, 2020, compared to $19.7 million, or 8.61% of total assets, on December 31, 2019. The increase in stockholders' equity was attributable to $1.3 million of net income for the nine month period ended September 30, 2020, a $53,000 increase in paid-in-capital and a $117,000 increase in the unrealized gain on available for sale securities, net of tax. The number of common shares outstanding on September 30, 2020 totaled 967,712 as compared to 965,352 on December 31, 2019. The book value per common share outstanding on September 30, 2020 was $21.91. 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 8.69%, 12.31%, 12.31% and 13.56%, respectively, at September 30, 2020 exceeded all regulatory requirements and categorize the Bank as well capitalized under applicable regulations.

Comparison of the Results of Operations for the Quarter Ended September 30, 2020 and September 30, 2019

General. Net income for the quarter ended September 30, 2020 was $566,000, or $0.58 per diluted common share, an increase of $287,000 or 103.0%, compared to $278,000, or $0.29 per diluted common share, for the same period in 2019. The increase in the current quarter net income compared to the prior year quarter was the result of a $98,000 increase in net interest income and a $589,000 increase in non-interest income, offset, in part, by a $100,000 increase in the provision for loan losses, a $202,000 increase other non-interest expense and a $98,000 increase in income tax expense.

Interest Income. Total interest income decreased $165,000, or 7.0%, to $2.2 million for the quarter ended September 30, 2020, from the prior year quarter as the result of an 91 basis point decrease in the weighted average yield on interest-earning assets to 3.64%, offset, in part, by a $33.7 million increase in the average balance of interest-earning assets outstanding.

Interest income on loans receivable decreased $63,000, to $2.1 million for the quarter ended September 30, 2020, as compared to the prior year quarter as the result of a 64 basis point decrease in the average yield to 4.23%, offset, in part, by a $21.7 million increase in the average balance of loans outstanding. Interest income on mortgage-backed securities decreased $16,000 to $30,000 for the quarter ended September 30, 2020, compared to the prior year quarter as the result of an 67 basis point decrease in the average yield to 1.78% and a $760,000 decrease in the average outstanding balance of mortgage-backed securities. Interest income on interest-bearing deposits decreased $79,000 to $7,000 for the quarter ended September 30, 2020, compared to the prior year quarter as the result of a 192 basis point decrease in the average yield to 0.10%, offset, in part, by a $12.8 million increase in the average outstanding balance. Dividend income on FHLBI stock decreased $7,000 to $12,000 for the quarter ended September 30, 2020, compared to the prior year quarter due to a 201 basis point decrease in the average yield to 3.49%.

Interest Expense. Total interest expense decreased $262,000, or 36.4%, to $461,000 for the quarter ended September 30, 2020, compared to the prior year quarter as the result of a 63 basis point decrease in the average cost to 0.79%, offset, in part, by a $30.5 million increase in the average balance of interest-bearing liabilities outstanding. The Federal Funds interest rate decreased by 150 basis points during March 2020. In connection with these declining interest rates, the Company's total cost of funds decreased from the prior year period.

Interest expense on deposits decreased $244,000, or 38.6%, to $389,000 for the quarter ended September 30, 2020, compared to the prior year quarter as the result of a 63 basis point decrease in the average cost of deposits to 0.70%, offset, in part, by a $30.7 million increase in the average balance of deposits outstanding.

Interest expense on borrowings decreased $18,000, or 20.6%, to $72,000 for the quarter ended September 30, 2020, compared to the prior year quarter end as the result of a $255,000 decrease in the average balance of borrowings outstanding and a 53 basis point decrease in the average cost to 2.16%.

Net Interest Income. As a result of the above changes in interest income and interest expense, net interest income increased $98,000 for the quarter ended September 30, 2020, compared to the prior year quarter ended September 30, 2019. The net interest rate spread decreased 28 basis points to 2.85% for the quarter ended September 30, 2020, while the net interest margin, expressed as a percentage of average earning assets, decreased 38 basis points to 2.88% for the quarter ended September 30, 2020.

Provision for Loan Losses. The Company recorded $150,000 in provision for loan losses for the quarter ended September 30, 2020, compared to $50,000 for the prior year quarter. 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 $258,000 for the quarter ended September 30, 2020, compared to net recoveries of $17,000 for the prior year quarter ended September 30, 2019.

Non-Interest Income. Non-interest income increased $588,000 to $1.2 million for the quarter ended September 30, 2020, compared to prior year quarter due primarily to a $167,000 increase in loan fees due to SBA PPP fees, a $529,000 increase in gain on sale of loan income due to increased volume, and a $13,000 increase in a non-taxable death benefit gain on Company owned life insurance. These increases were offset, in part, by a $42,000 decrease in rental income due to delinquent rents, a $34,000 increase in losses on the sale and write-downs of other real estate owned, and a $51,000 decrease in other income.

Non-Interest Expense. Non-interest expense increased $201,000 to $2.0 million for the quarter ended September 30, 2020, compared to prior year quarter primarily as the result of a $169,000 increase in compensation expenses, a $33,000 increase in occupancy expenses, a $14,000 increase in data processing expenses, a $23,000 increase professional expenses and a $37,000 increase in FDIC insurance premium expense. These increases were offset, in part, by a $30,000 decrease in advertising expense and a $44,000 decrease in other operating expenses.

Income Taxes. The Company recorded income tax expense of $199,000 for the quarter ended September 30, 2020, resulting in an effective tax rate of 26.1%, compared to income tax expense of $101,000, for an effective income tax rate of 26.7%, for the prior year quarter. The increase in the current quarter income tax expense was impacted by a $385,000 increase in net income before income taxes as compared to the prior year's period.

Analysis of Net Interest Income. Net interest income represents the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities. Net interest income is affected by the relative amounts of interest-earning assets and interest-bearing liabilities, and the interest rates earned or paid on them.

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)

	Three Months Ended September 30, 2020			Three Months Ended September 30, 2019		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Assets:						
Interest-Earning Assets:						
Loans receivable	$202,607	$2,143	4.23%	$180,951	$2,206	4.87%
Mortgage-backed securities	6,812	30	1.78	7,572	46	2.45
Interest-bearing deposits	29,734	7	0.10	16,962	86	2.02
FHLBI stock	1,372	12	3.49	1,372	19	5.50
Total interest-earning assets	240,525	2,192	3.64	206,857	2,357	4.55
Non interest-earning assets	16,670			17,648		
Total assets	257,195			224,505		
Liabilities and Stockholders' Equity:						
Interest-Bearing Liabilities:						
Passbook accounts	27,702	4	0.05%	26,748	5	0.08%
Demand accounts	129,660	102	0.31	96,342	266	1.10
Certificate accounts	62,149	283	1.81	65,685	362	2.19
Total deposits	219,511	389	0.70	188,775	633	1.33
Borrowings	13,173	72	2.16	13,428	90	2.69
Total interest-bearing liabilities	232,684	461	0.79	202,203	723	1.42
Non-interest-bearing liabilities	3,618			3,241		
Total liabilities	236,302			205,444		
Stockholders' equity	20,893			19,061		
Total liabilities and stockholders' equity	$257,195			$224,505		
Net interest income / interest rate spread		$1,731	2.85%		$1,634	3.13%
Net interest margin			2.88%			3.26%

Comparison of the Results of Operations for the Nine Months Ended September 30, 2020 and September 30, 2019

General. Net income for the nine months ended September 30, 2020 was $1,351,000, or $1.39 per diluted common share, an increase of $501,000 or 59.0%, compared to $849,000, or $0.87 per diluted common share, for the same period in 2019. The increase in the current nine months net income compared to the prior year nine month period was the result of a $123,000 increase in net interest income and a $1,255,000 increase in non-interest income, offset, in part, by a $411,000 increase in the provision for loan losses, a $297,000 increase other non-interest expense and a $169,000 increase in income tax expense.

Interest Income. Total interest income decreased $329,000, or 4.7%, to $6.7 million for the nine months ended September 30, 2020, from the prior year nine month period as the result of a 70 basis point decrease in the weighted average yield on interest-earning assets to 3.91%, offset, in part, by a $25.1 million increase in the average balance of interest-earning assets outstanding.

Interest income on loans receivable decreased $101,000, to $6.5 million for the nine months ended September 30, 2020, as compared to the prior year nine month period as the result of a 51 basis point decrease in the average yield to 4.38%, offset, in part, by a $17.7 million increase in the average balance of loans outstanding. Interest income on mortgage-backed securities decreased $15,000 to $113,000 for the nine months ended September 30, 2020, compared to the prior year nine month period as the result of a $1.0 million increase in the average outstanding balance of mortgage-backed securities and a 63 basis point decrease in the average yield to 1.99%. Interest income on interest-bearing deposits decreased $187,000 to $65,000 for the nine months ended September 30, 2020, compared to the prior year nine month period as the result of a 177 basis point decrease in the average yield to 0.40%, offset, in part, by a $6.3 million increase in the average outstanding balance. Dividend income on FHLBI stock decreased $26,000 to $34,000 for the nine months ended September 30, 2020, compared to the prior year nine month period due to a 252 basis point decrease in the average yield to 3.32%.

Interest Expense. Total interest expense decreased $452,000, or 22.3%, to $1.6 million for the nine months ended September 30, 2020, compared to the prior year nine month period as the result of a 41 basis point decrease in the average cost to 0.95%, offset, in part, by an $22.7 million increase in the average balance of interest-bearing liabilities outstanding.

Interest expense on deposits decreased $405,000, or 23.1%, to $1.3 million for the nine months ended September 30, 2020, compared to the prior year nine month period as the result of a 41 basis point decrease in the average cost of deposits to 0.86%, offset, in part, by a $22.8 million increase in the average balance of deposits outstanding.

Interest expense on borrowings decreased $47,000, or 16.9%, to $227,000 for the nine months ended September 30, 2020, compared to the prior year nine month period ended September 30, 2019 as the result of a $152,000 decrease in the average balance of borrowings outstanding and a 46 basis point decrease in the average cost to 2.27%.

Net Interest Income. As a result of the above changes in interest income and interest expense, net interest income increased $123,000 for the nine months ended September 30, 2020, compared to the prior year nine month period ended September 30, 2019. The net interest rate spread decreased 29 basis points to 2.96% for the nine months ended September 30, 2020, while the net interest margin, expressed as a percentage of average earning assets, decreased 29 basis points to 3.00% for the nine months ended September 30, 2020.

Provision for Loan Losses. The Company recorded $481,000 in provision for loan losses for the nine months ended September 30, 2020, compared to $70,000 for the prior year nine month period. 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 $224,000 for the nine months ended September 30, 2020, compared to net charge-offs of $68,000 for the prior year nine month period ended September 30, 2019.

Non-Interest Income. Non-interest income increased $1.3 million to $2.7 million for the nine months ended September 30, 2020, compared to prior year nine month period due primarily to a $202,000 increase in loan fees due to SBA PPP fees, a $1.2 million increase in gain on sale of loan income due to increased volume, and a $13,000 increase in a non-taxable death benefit gain on Company owned life insurance. These increases were offset, in part, by a $27,000 decrease in deposited related fees, a $27,000 decrease in rental income due to delinquent rents, a $41,000 increase in losses on the sale and write-downs of other real estate owned, and a $14,000 decrease in other income.

Non-Interest Expense. Non-interest expense increased $297,000 to $5.6 million for the nine months ended September 30, 2020, compared to prior year nine month period primarily as the result of a $213,000 increase in compensation expenses, an $87,000 increase in occupancy expenses, a $63,000 increase in data processing expenses, a $36,000 increase in FDIC insurance premiums due to the prior year utilization of an assessment credit. These increases were offset, in part, by a $67,000 decrease in advertising expense and a $39,000 decrease in other expenses.

Income Taxes. The Company recorded income tax expense of $468,000 for the nine months ended September 30, 2020, resulting in an effective tax rate of 25.7%, compared to income tax expense of $299,000, for an effective income tax rate of 26.0%, for the prior year nine month period. The increase in the current nine months income tax expense was impacted by a $670,000 increase in net income before income taxes as compared to the prior year's period.

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)

	Nine Months Ended September 30, 2020			Nine Months Ended September 30, 2019		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Assets:						
Interest-Earning Assets:						
Loans receivable	$197,877	$6,499	4.38%	$180,147	$6,600	4.89%
Mortgage-backed securities	7,597	114	1.99	6,557	129	2.62
Interest-bearing deposits	21,768	65	0.40	15,461	252	2.18
FHLBI stock	1,372	34	3.32	1,372	60	5.84
Total interest-earning assets	228,614	6,712	3.91	203,537	7,041	4.61
Non interest-earning assets	16,745			17,173		
Total assets	245,359			220,730		
Liabilities and Stockholders' Equity:						
Interest-Bearing Liabilities:						
Passbook accounts	27,410	10	0.05%	27,150	16	0.08%
Demand accounts	117,378	396	0.45	92,339	710	1.03
Certificate accounts	63,158	941	1.98	65,647	1,026	2.09
Total deposits	207,946	1,347	0.86	185,136	1,752	1.27
Borrowings	13,276	227	2.27	13,428	274	2.73
Total interest-bearing liabilities	221,222	1,574	0.95	198,564	2,026	1.36
Non-interest-bearing liabilities	3,784			3,331		
Total liabilities	225,005			201,895		
Stockholders' equity	20,354			18,835		
Total liabilities and stockholders' equity	$245,359			$220,730		
Net interest income / interest rate spread		$5,138	2.96%		$5,015	3.25%
Net interest margin			3.00%			3.29%

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 establish 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 and continues to maintain the exemption of consolidated capital requirements for bank holding companies, such as the Company.

At September 30, 2020, the Bank was in compliance with all of its capital requirements as follows:

Well Capitalized Capital Requirement:	Amount	Percent of Average Assets
Tier 1 Leverage Ratio:		
Average Total Assets	$ 257,122,000	
Common Equity Tier 1 Capital	$ 22,332,000	8.69%
Common Equity Tier 1 Capital Requirement	12,856,100	5.00%
Excess	$ 9,475,900	3.69%
Risk-Based Common Equity Tier 1 Capital Ratio:		
Risk-Weighted Assets	$ 181,419,000	
Common Equity Tier 1 Capital	$ 22,332,000	12.31%
Common Equity Tier 1 Capital Requirement	11,792,235	6.50%
Excess	$ 10,539,765	5.81%
Risk-Based Tier 1 Capital Ratio:		
Risk-Weighted Assets	$ 181,419,000	
Common Equity Tier 1 Capital	$ 22,332,000	12.31%
Common Equity Tier 1 Capital Requirement	14,513,520	8.00%
Excess	$ 7,818,480	4.31%
Risk-Based Total Capital Ratio:		
Risk-Weighted Assets	$ 181,419,000	
Common Equity Tier 1 Capital	$ 22,332,000	
Includable Allowance for Loan Losses	2,269,000	
Total Tier 2 Risk-Based Capital	$ 24,601,000	13.56%
Total Risk-Based Capital Requirement	18,141,900	10.00%
Excess	$ 6,459,100	3.56%
Capital Conservation Buffer - Actual		5.56%
Capital Conservation Buffer - Required		2.50%

Legal Proceedings. On September 30, 2020, we were not involved in any legal proceedings or lawsuits that are not routine and incidental to our business.