



*2021 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 2021 annual financial report.

Financial highlights:

- Net income available to common shareholders totaled a record \$3,781,000 for 2021 as compared to \$2,792,000 for 2020, representing an increase of \$989,000, or 35.4%.
- Diluted earnings per share available to common shareholders totaled \$3.97 per share for the year ended December 31, 2021 compared to \$2.88 per share for 2020.
- Total assets of the Company were \$288.0 million at December 31, 2021, an increase of \$25.7 million from \$262.3 million at December 31, 2020.
- Net loans receivable increased \$24.6 million to \$212.5 million at December 31, 2021, from \$187.9 million at December 31, 2020.
- In response to the Covid-19 pandemic, we originated Paycheck Protection Program loans totaling \$16.7 million which helped retain jobs for small businesses during 2021.
- Deposits increased \$28.0 million to \$251.5 million at December 31, 2021, from \$223.5 million at December 31, 2020.
- Non-accrual loans decreased \$537,000 to \$442,000 at December 31, 2021, from \$979,000 at December 31, 2020.
- Classified substandard assets decreased \$1.8 million to \$460,000 at December 31, 2021, from \$2.3 million at December 31, 2020, due to a reduction in other real estate owned and non-accrual loans.
- The book value per common share outstanding at December 31, 2021 was \$27.54.
- 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 9.19%, 12.42%, 12.42% and 13.62%, respectively, at December 31, 2021 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, 2021 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 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 established a loan deferral program to provide temporary relief for borrowers who are experiencing short-term financial or operational problems

because of COVID-19. During 2021, eligible loan modifications made under Section 4013, Temporary Relief from Troubled Debt Restructurings, of the 2020 Coronavirus Aid, Relief, and Economic Security Act totaled \$4.8 million. At December 31, 2021, outstanding eligible loan modifications totaled \$0.

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 \$288.0 million on December 31, 2021, an increase of \$25.7 million, from \$262.3 million on December 31, 2020. The change was primarily due to a \$24.6 million increase in loans receivable.

Cash and cash equivalents, which consist primarily of interest-earning deposits, totaled \$45.8 million on December 31, 2021, a decrease of \$2.2 million, from \$48.0 million on December 31, 2020. 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.

Investment securities, available for sale, increased \$4.7 million to \$10.4 million on December 31, 2021, from \$5.7 million on December 31, 2020. The increase was the result of new purchases of \$7.2 million, offset, in part, by repayments of investment securities of \$2.5 million. The Company recorded an unrealized gain on available for sale investment securities of \$27,000 on December 31, 2021 compared to a \$211,000 unrealized gain on December 31, 2020. These amounts are included as part of the carrying cost of investment securities, available for sale, at each respective period.

The Bank is a member of the FHLBI and had a \$2.7 million investment in stock of the FHLBI on December 31, 2021, a \$1.3 million increase from the \$1.4 million on December 31, 2020. Members are required to own a certain amount of stock based on the level of borrowings, voluntary participation in the FHLBI mortgage purchase program, and other factors. The investment is carried at par value, as there is not an active market for FHLBI stock.

Net loans receivable totaled \$212.5 million on December 31, 2021, a \$24.6 million increase from the \$187.9 million balance on December 31, 2020. Loans held for sale totaled \$0.7 million on December 31, 2021, a \$1.3 million decrease from the \$2.0 million balance on December 31, 2020. The Company originated \$93.0 million of loans held for sale which were subsequently sold during the year ended December 31, 2021, as compared to \$105.9 million during the prior year period. Loans originated for sale are fixed-rate, single-family mortgage loans, which are sold to manage interest rate risk and generate fee income. The change in net loans receivable was also impacted by the Company's participation in the Small Business Administration's Paycheck Protection Program (SBA PPP). Section 1102 of the CARES Act temporarily added 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. The Company originated PPP loans totaling \$16.7 million and \$21.7 million during 2021 and 2020, respectively. On December 31, 2021, SBA PPP net loans totaled \$3.5 million, a \$8.9 million decrease from the \$12.4 million balance at December 31, 2020.

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 \$2,570,000 on December 31, 2021, representing a \$95,000 increase as compared to December 31, 2020. The Bank's allowance for loan losses to total loans was 1.19% on December 31, 2021 as compared to 1.30% on December 31, 2020. 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.

**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 \$1.8 million to \$0.5 million on December 31, 2021 as compared to December 31, 2020.

**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 \$442,000, or 0.20% of total loans receivable at December 31, 2021, compared to \$979,000, or 0.51% of total loans receivable at December 31, 2020.

**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, no potential problem loans were classified as performing substandard on December 31, 2021 and December 31, 2020.

The ratio of allowance for loan losses to classified and criticized loans was 582.0% on December 31, 2021, compared to 252.7% on December 31, 2020.

Other real estate owned, which is classified substandard, totaled \$18,000 on December 31, 2021 as compared to \$1.3 million on December 31, 2020. Other real estate owned on December 31, 2021 consists of one vacant residential building lot totaling \$18,000. 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 December 31, 2021, a \$46,000 decrease from the balance on December 31, 2020. The decrease represents normal depreciation of \$443,000, offset, in part, by additions totaling \$397,000.

Bank owned life insurance decreased \$77,000 to \$3.7 million on December 31, 2021. The change represents redemption of life insurance totaling \$146,000 due to a death benefit claim, offset, in part by an \$69,000 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 \$37,000 to \$2.0 million on December 31, 2021.

Total deposits increased \$28.0 million to \$251.5 million on December 31, 2021. The increase in deposits during the period was due to a \$22.9 million increase in checking deposits, a \$2.9 million increase in money market accounts and a \$7.8 million increase in passbook deposits, offset, in part, by a \$5.6 million decrease in certificates of deposit accounts. On December 31, 2021, the Bank's core deposits (passbook, checking and money market accounts) comprised \$192.7 million, or 76.6% of deposits, compared to \$159.1 million, or 71.2% of deposits, on December 31, 2020. 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, decreased \$5.0 million to \$5.0 million on December 31, 2021 as compared to December 31, 2020. Borrowings from the FHLBI on December 31, 2021 had a weighted average rate of 2.89% and a weighted term to maturity of 1.7 years.

The Company's trust preferred subordinated debentures remained unchanged totaling \$3.1 million on December 31, 2021. The interest rate payable on the debentures adjusts quarterly to the three month LIBOR plus 1.65% and was 1.85% on December 31, 2021. 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 decreased \$128,000 totaling \$2.9 million on December 31, 2021 as compared to December 31, 2020.

Total stockholders' equity increased \$2.8 million to \$25.4 million, or 8.83% of total assets on December 31, 2021, compared to \$22.7 million, or 8.64% of total assets, on December 31, 2020. The increase in stockholders' equity was attributable to \$3.8 million of net income for the year ended December 31, 2021, a \$44,000 increase in paid-in-capital, a \$139,000 decrease in the unrealized gain (loss) on available for sale securities, net of tax, offset, in part, by a \$920,000 increase in treasury stock. The number of common shares outstanding at December 31, 2021 was 923,053, a decrease of 44,659 shares as compared to the number of shares outstanding at December 31, 2020. During the year ended December 31, 2021, the Company repurchased 47,019 common shares at an average cost of \$20.16 per share. The shares were retired as treasury stock. The book value per common share outstanding at December 31, 2021 was \$27.54. 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 9.19%, 12.42%, 12.42% and 13.62%, respectively, at December 31, 2021 exceeded all regulatory requirements and categorize the Bank as well capitalized under applicable regulations.

### **Comparison of the Results of Operations for the Year Ended December 31, 2021 and December 31, 2020**

**General.** Net income for the year ended December 31, 2021 was \$3,781,000, or \$3.97 per diluted common share, an increase of \$989,000 or 35.4%, compared to \$2,792,000, or \$2.88 per diluted common share, for the same period in 2020. The increase in the current period net income compared to the prior year period was the result of a \$1.5 million increase in net interest income, and a \$529,000 decrease in the provision for loan losses, offset, in part, by a \$26,000 decrease in non-interest income, a \$656,000 increase in other non-interest expense and a \$396,000 increase in income tax expense.

**Interest Income.** Total interest income increased \$0.8 million, or 8.4%, to \$10.6 million for the year ended December 31, 2021, from the prior year period as the result of a \$28.1 million increase in the average balance of interest-earning assets outstanding, offset, in part, by 14 basis point decrease in the weighted average yield on interest-earning assets to 4.09%.



Interest income on loans receivable increased \$857,000, to \$10.4 million for the year ended December 31, 2021, as compared to the prior year period as the result of a \$8.7 million increase in the average balance of loans outstanding and a 21 basis point increase in the average yield to 4.99%. The yield was enhanced by SBA PPP fees earned of \$1.4 million for the year ended December 31, 2021 as compared to \$517,000 for the prior year period ended December 31, 2020. Interest income on investment securities decreased \$29,000 to \$112,000 for the year ended December 31, 2021, compared to the prior year period. The average outstanding balance of mortgage-backed securities declined \$1.4 million, and the average yield declined 21 basis point to 1.75%. The average outstanding balance of municipal securities increased \$0.8 million, and the average yield increased to 1.35%. Interest income on interest-bearing deposits decreased \$17,000 to \$54,000 for the year ended December 31, 2021, compared to the prior year period as the result of an 18 basis point decrease in the average yield to 0.13%, offset, in part, by a \$19.5 million increase in the average outstanding balance. Dividend income on FHLBI stock increased \$18,000 to \$61,000 for the year ended December 31, 2021, compared to the prior year period due to a \$0.6 million increase in the average balance outstanding, offset, in part, by a 9 basis point decrease in the average yield to 3.09%

**Interest Expense.** Total interest expense decreased \$710,000, or 35.7%, to \$1.3 million for the year ended December 31, 2021, compared to the prior year period as the result of a 37 basis point decrease in the average cost to 0.52%, offset, in part, by a \$23.1 million increase in the average balance of interest-bearing liabilities outstanding.

Interest expense on deposits decreased \$647,000, or 38.2%, to \$1.0 million for the year ended December 31, 2021, compared to the prior year period as the result of a 36 basis point decrease in the average cost of deposits to 0.44%, offset, in part, by a \$25.8 million increase in the average balance of deposits outstanding.

Interest expense on borrowings decreased \$63,000, or 21.3%, to \$233,000 for the year ended December 31, 2021, compared to the prior year period as the result of a \$2.8 million decrease in the average balance of borrowings outstanding while the average cost remained unchanged at 2.25%.

**Net Interest Income.** As a result of the above changes in interest income and interest expense, net interest income increased \$1.5 million for the year ended December 31, 2021, compared to the prior year period ended December 31, 2020. The net interest rate spread increased 23 basis points to 3.57% for the year ended December 31, 2021, while the net interest margin, expressed as a percentage of average earning assets, increased 23 basis points to 3.60% for the year ended December 31, 2021.

**Provision for Loan Losses.** The Company recorded \$10,000 in provision for loan losses for the year ended December 31, 2021, compared to \$539,000 for the prior year 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 recoveries of \$85,000 for the year ended December 31, 2021, compared to net charge-offs of \$214,000 for the prior year period ended December 31, 2020.

**Non-Interest Income.** Non-interest income decreased \$26,000 to \$4.1 million for the year ended December 31, 2021, compared to prior year period due primarily to a \$32,000 decrease in other fee income, a \$386,000 decrease in gains on sale of loan income, and a \$163,000 decrease in other income. These decreases were offset, in part, by a \$193,000 increase in loan fees, a \$33,000 increase in deposit fees, a \$68,000 increase in rental income, a \$237,000 increase in gains on the sale of other real estate owned, and a \$28,000 increase in the benefit from bank-owned life insurance.

**Non-Interest Expense.** Non-interest expense increased \$656,000 to \$8.4 million for the year ended December 31, 2021, compared to prior year period primarily as the result of a \$349,000 increase in compensation expenses, a \$226,000 increase in marketing expenses, and a \$181,000 increase in data processing expenses. These increases were offset, in part, by a \$26,000 decrease in occupancy expenses, a \$26,000 decrease in FDIC insurance premiums, a \$15,000 decrease in other insurance expenses and a \$34,000 decrease in other expenses.

**Income Taxes.** The Company recorded income tax expense of \$1.3 million for the year ended December 31, 2021, resulting in an effective tax rate of 25.2%, compared to income tax expense of \$0.9 million, for an effective income tax rate of 23.8%, for the prior year period. The increase in the current year income tax expense was impacted by a \$1.4 million increase in net income before income taxes as compared to the prior year 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

<u>(Unaudited)</u>	(Dollars in thousands)					
	Year Ended <u>December 31, 2021</u>			Year Ended <u>December 31, 2020</u>		
	Average <u>Balance</u>	Interest	Average Yield/ <u>Cost</u>	Average <u>Balance</u>	Interest	Average Yield/ <u>Cost</u>
Assets:						
Interest-Earning Assets:						
Loans receivable	\$208,633	\$10,414	4.99%	\$199,972	\$9,557	4.78%
Mortgage-backed securities	5,751	101	1.75	7,183	141	1.96
Municipal securities	796	11	1.35	-	-	-
Interest-bearing deposits	42,765	54	0.13	23,279	72	0.31
FHLBI stock	1,985	61	3.09	1,372	44	3.18
Total interest-earning assets	<u>259,930</u>	<u>10,641</u>	4.09	<u>231,806</u>	<u>9,814</u>	4.23
Non interest-earning assets	<u>16,063</u>			<u>16,987</u>		
Total assets	<u><u>275,993</u></u>			<u><u>248,793</u></u>		
Liabilities and Stockholders' Equity:						
Interest-Bearing Liabilities:						
Passbook accounts	33,660	17	0.05%	27,736	14	0.05%
Demand accounts	142,618	328	0.23	120,120	481	0.40
Certificate accounts	<u>60,713</u>	<u>703</u>	1.16	<u>63,293</u>	<u>1,200</u>	1.89
Total deposits	236,991	1,048	0.44	211,149	1,695	0.80
Borrowings	<u>10,391</u>	<u>233</u>	2.25	<u>13,159</u>	<u>297</u>	2.25
Total interest-bearing liabilities	247,382	<u>1,281</u>	0.52	224,308	<u>1,992</u>	0.89
Non-interest-bearing liabilities	<u>4,472</u>			<u>3,733</u>		
Total liabilities	<u>251,854</u>			<u>228,041</u>		
Stockholders' equity	<u>24,139</u>			<u>20,752</u>		
Total liabilities and stockholders' equity	<u><u>\$275,993</u></u>			<u><u>\$248,793</u></u>		
Net interest income / interest rate spread		<u>\$9,360</u>	<u>3.57%</u>		<u>\$7,822</u>	<u>3.34%</u>
Net interest margin			3.60%			3.37%

## 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.

Presented below, as of December 31, 2021 and 2020, 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.

Fair Value of Equity (Unaudited)										
		At December 31, 2021				At December 31, 2020				
Rate Shock	Rate Shift Type	Fair Value of Equity /		Change		Fair Value of Equity /		Change		
		Fair Value of Total Assets	Fair Value of Equity \$ (dollars in thousands)	\$	%	Fair Value of Total Assets	Fair Value of Equity \$ (dollars in thousands)	\$	%	
+400/+400 bp	Instantaneous	11.99%	31,471	36	0.11	7.77%	18,657	(6,287)	(25.20)	
+300/+300 bp	12 Months	11.66%	31,168	(267)	(0.85)	8.32%	20,304	(4,640)	(18.60)	
+200/+200 bp	12 Months	11.63%	31,868	433	1.38	8.99%	22,440	(2,504)	(10.04)	
+100/+100 bp	12 Months	11.44%	32,056	621	1.98	9.43%	24,073	(871)	(3.49)	
Unchanged		10.96%	31,435			9.55%	24,944			
-100/-100 bp	12 Months	11.05%	32,397	962	3.06	10.54%	28,080	3,136	12.57	

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 because 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, and the purchase of investment securities. The Company experienced a net increase in loans of \$24.6 million during the year ended December 31, 2021, compared to a net increase in loans of \$6.8 million during 2020. The Company experienced a net increase in investment securities of \$4.7 million during the year ended December 31, 2021, compared to a net decrease in investment securities of \$2.5 million during 2020.

These increases were funded primarily from cash and amounts due from depository institutions, principal repayments on investment securities, proceeds from the sale of other real estate owned, and net increases in deposits and borrowings. The Company experienced a net decrease in cash and amounts due from depository institutions deposits of \$2.2 million during the year ended December 31, 2021, compared to a net increase in cash and amounts due from depository institutions of \$27.9 million during 2020. Proceeds from the repayment of investment securities totaled \$2.5 million and \$3.1 million, respectively for the years ended December 31, 2021 and 2020. The Company experienced a net increase in deposits of \$28.0 million during the year ended December 31, 2021, compared to a net increase in deposits of \$30.2 million during 2020. Borrowings consist of advances from the FHLBI and other entities. New borrowings totaled \$0 during 2021 and 2020. Borrowings of \$5.0 million were repaid in 2021 and borrowings of \$0.2 million were repaid 2020.

The Company may borrow funds from the FHLBI subject to certain limitations. At December 31, 2021, based on the level of qualifying collateral available to secure advances, the Company had an unused borrowing capacity of \$45.1 million. At December 31, 2021, 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, 2021 and 2020, cash and cash equivalents totaled \$45.8 million and \$48.0 million, respectively.

The Company had unused construction and commercial lines of credit of \$24.7 million, unused home equity lines of credit of \$13.1 million and has issued outstanding letters of credit on behalf of third parties totaling approximately \$2.2 million at December 31, 2021. 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, 2021 totaled \$45.0 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 2021, AMB recorded cash inflows of \$1.1 million and cash outflows of \$1.1 million resulting in a decrease of \$59,000 to cash and cash equivalents. During 2020, AMB recorded cash inflows of \$909,000 and cash outflows of \$754,000 resulting in an increase of \$155,000 to cash and cash equivalents. Cash and cash equivalents totaled \$1.8 million and \$1.8 million at December 31, 2021 and 2020, 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 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 risk-based common equity Tier 1 adequately capitalized ratio requirement of 4.50% (well capitalized ratio of 6.50%), a risk-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 \$1.0 million during 2021 and \$250,000 during 2020.

### **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 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.

## **Independent Auditor's Report**

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

### **Opinion**

We have audited the consolidated financial statements of AMB Financial Corp. and its wholly owned subsidiary, American Community Bank of Indiana (the "Company"), which comprise the consolidated balance sheet as of December 31, 2021 and 2020 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.

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

### **Basis for Opinion**

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

### **Responsibilities of Management for the Consolidated Financial Statements**

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

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

### **Auditor's Responsibilities for the Audits of the Consolidated Financial Statements**

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

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

In performing audits in accordance with GAAS, we:

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

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

*Plante & Moran, PLLC*

February 16, 2022

# AMB Financial Corp. and Subsidiary

## Consolidated Balance Sheet

December 31, 2021 and 2020

	2021	2020
<b>Assets</b>		
Cash and amounts due from depository institutions	\$ 2,341,844	\$ 2,441,616
Interest-bearing deposits in other depository institutions	43,416,522	45,564,965
Total cash and cash equivalents	45,758,366	48,006,581
Investment securities - Available for sale (Note 4)	10,377,656	5,715,467
Federal Home Loan Bank of Indianapolis stock	2,693,400	1,372,000
Loans held for sale (Note 6)	656,901	1,982,198
Loans receivable - Net (Note 5)	212,516,901	187,856,884
Other real estate owned	18,050	1,277,449
Office properties and equipment - Net (Note 7)	9,399,541	9,445,691
Accrued interest receivable	749,497	717,061
Bank-owned life insurance	3,746,441	3,823,587
Prepaid expenses and other assets	2,038,545	2,075,259
Total assets	<b>\$ 287,955,298</b>	<b>\$ 262,272,177</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Deposits (Note 8)	\$ 251,519,105	\$ 223,473,352
Borrowed funds (Note 9)	5,000,000	10,000,000
Junior subordinated debentures (Note 10)	3,093,000	3,093,000
Other liabilities	2,925,028	3,053,006
Total liabilities	262,537,133	239,619,358
<b>Stockholders' Equity</b>		
Common stock - Voting - \$0.01 par value - Authorized - 1,900,000 shares Issued - 1,683,641 shares Outstanding - 923,053 and 967,712 shares at December 31, 2021 and 2020, respectively	16,837	16,837
Additional paid-in capital	11,753,929	11,710,397
Retained earnings	22,595,100	18,814,448
Accumulated other comprehensive income - Net	15,984	154,490
Treasury stock - 760,588 and 715,929 shares at December 31, 2021 and 2020, respectively	(8,963,685)	(8,043,353)
Total stockholders' equity	25,418,165	22,652,819
Total liabilities and stockholders' equity	<b>\$ 287,955,298</b>	<b>\$ 262,272,177</b>



**AMB Financial Corp. and Subsidiary****Consolidated Statement of Income****Years Ended December 31, 2021 and 2020**

	2021	2020
<b>Interest and Dividend Income</b>		
Interest on loans	\$ 10,413,954	\$ 9,557,480
Interest on investment securities	111,653	140,981
Interest on interest-bearing deposits in other depository institutions	54,030	71,482
Dividends on Federal Home Loan Bank stock	61,337	43,712
Total interest and dividend income	10,640,974	9,813,655
<b>Interest Expense</b>		
Interest on deposits	1,048,012	1,695,071
Interest on borrowings	233,447	296,462
Total interest expense	1,281,459	1,991,533
<b>Net Interest Income</b>	9,359,515	7,822,122
<b>Provision for Loan Losses</b>	9,926	538,938
<b>Net Interest Income after Provision for Loan Losses</b>	9,349,589	7,283,184
<b>Noninterest Income (Loss)</b>		
Loan fees and service charges	439,115	245,987
Deposit-related fees	315,892	282,975
Other fee income	52,935	85,341
Rental income	404,434	336,884
Gain on sale of loans	2,365,188	2,750,904
Gain (loss) on sale of other real estate owned - Net	201,766	(35,321)
Increase in cash surrender value of bank-owned life insurance	68,583	71,699
Benefit from bank-owned life insurance	41,447	13,242
Other income	248,532	411,760
Total noninterest income	4,137,892	4,163,471
<b>Noninterest Expense</b>		
Salaries and employee benefits	4,683,271	4,334,572
Occupancy and equipment	863,432	889,154
Data processing	1,032,485	851,658
Professional fees	284,186	282,299
Advertising	432,265	206,488
Federal deposit insurance premiums	120,452	146,857
Insurance	92,842	107,978
Other operating expenses	927,445	961,120
Total noninterest expense	8,436,378	7,780,126
<b>Income - Before income taxes</b>	5,051,103	3,666,529
<b>Income Tax Expense (Note 13)</b>	1,270,451	874,315
<b>Net Income</b>	<b>\$ 3,780,652</b>	<b>\$ 2,792,214</b>
Earnings per common share - Basic	\$ 4.00	\$ 2.89
Earnings per common share - Diluted	\$ 3.97	\$ 2.88

**AMB Financial Corp. and Subsidiary****Consolidated Statement of Comprehensive Income****Years Ended December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>Net Income</b>	\$ 3,780,652	\$ 2,792,214
<b>Other Comprehensive (Loss) Income</b> - Unrealized (losses) gains on securities available for sale arising during the period - Net of tax	<u>(138,506)</u>	<u>110,090</u>
<b>Comprehensive Income</b>	<u><u>\$ 3,642,146</u></u>	<u><u>\$ 2,902,304</u></u>

## AMB Financial Corp. and Subsidiary

# Consolidated Statement of Changes in Stockholders' Equity

	Years Ended December 31, 2021 and 2020					
	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income - Net	Retained Earnings	Treasury Stock	Total
<b>Balance - January 1, 2020</b>	\$ 16,837	\$ 11,665,843	\$ 44,400	\$ 16,022,234	\$ (8,069,856)	\$ 19,679,458
Comprehensive income:						
Net income	-	-	-	2,792,214	-	2,792,214
Other comprehensive income - Net	-	-	110,090	-	-	110,090
Vesting of 2,360 shares of restricted stock - Issued from treasury stock	-	(26,503)	-	-	26,503	-
Stock-based compensation expense	-	71,057	-	-	-	71,057
<b>Balance - December 31, 2020</b>	16,837	11,710,397	154,490	18,814,448	(8,043,353)	22,652,819
Comprehensive income (loss):						
Net income	-	-	-	3,780,652	-	3,780,652
Other comprehensive loss - Net	-	-	(138,506)	-	-	(138,506)
Vesting of 2,360 shares of restricted stock - Issued from treasury stock	-	(27,525)	-	-	27,525	-
Stock-based compensation expense	-	71,057	-	-	-	71,057
Repurchase of 47,019 shares of common stock	-	-	-	-	(947,857)	(947,857)
<b>Balance - December 31, 2021</b>	<b>\$ 16,837</b>	<b>\$ 11,753,929</b>	<b>\$ 15,984</b>	<b>\$ 22,595,100</b>	<b>\$ (8,963,655)</b>	<b>\$ 25,418,165</b>

# AMB Financial Corp. and Subsidiary

## Consolidated Statement of Cash Flows

Years Ended December 31, 2021 and 2020

	2021	2020
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 3,780,652	\$ 2,792,214
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation	443,601	439,649
Amortization of premiums and accretion of discounts	(190,568)	77,069
Proceeds from sale of loans originated for sale	96,714,478	107,579,861
Loans originated for sale	(93,023,993)	(105,886,985)
Gain on sale of loans	(2,365,188)	(2,750,904)
(Gain) loss on sale of other real estate owned - Net	(201,766)	35,321
Provision for loan losses	9,926	538,938
Deferred tax expense	101,467	76,350
Stock-based compensation expense	71,057	71,057
Net change in:		
Cash surrender value of life insurance	(68,583)	(71,699)
Net deferred loan fees	(259,019)	523,893
Accrued interest receivable	(32,436)	(7,515)
Other assets	214,913	286,536
Other liabilities	243,386	512,463
Net cash and cash equivalents provided by operating activities	5,437,927	4,216,248
<b>Cash Flows from Investing Activities</b>		
Proceeds from the repayments of investment securities	2,493,978	3,100,817
Purchase of investment securities	(7,149,929)	(500,000)
Net increase in loans	(25,016,130)	(9,856,112)
Proceeds from sale of other real estate owned	1,461,165	1,179,120
Office property and equipment expenditures - Net	(397,451)	(288,464)
Purchase of FHLB stock	(1,321,400)	-
Improvements to other real estate owned	-	(67,061)
Proceeds from life insurance policies	145,729	88,281
Net cash and cash equivalents used in investing activities	(29,784,038)	(6,343,419)
<b>Cash Flows from Financing Activities</b>		
Net increase in deposits	28,062,080	30,260,915
Repayment of borrowed funds	(5,000,000)	(172,947)
Decrease in advance payments by borrowers for taxes and insurance	(16,327)	(81,942)
Repurchase of treasury stock	(947,857)	-
Net cash and cash equivalents provided by financing activities	22,097,896	30,006,026
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(2,248,215)</b>	<b>27,878,855</b>
<b>Cash and Cash Equivalents - Beginning of year</b>	<b>48,006,581</b>	<b>20,127,726</b>
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 45,758,366</b>	<b>\$ 48,006,581</b>
<b>Supplemental Cash Flow Information</b>		
Interest paid	\$ 1,285,919	\$ 1,995,879
Income taxes paid	1,530,000	578,000
Transfer of loans to other real estate owned	-	1,207,262



**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.

***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.

***Investment 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, 2021 and 2020 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 payoff 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 \$762,996 and \$1,022,015 of net deferred fees as of December 31, 2021 and 2020, 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 (TDR) 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. 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, 2021 and 2020, 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, 2021 and 2020.

***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.

***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.



**Notes to Consolidated Financial Statements**

**December 31, 2021 and 2020**

**Note 2 - Significant Accounting Policies (Continued)**

***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 945,693 and 966,339 common shares outstanding for the years ended December 31, 2021 and 2020, 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 February 16, 2022, which is the date the financial statements were available to be issued.

***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. 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 Scaled CECL Allowance for Losses Estimator method and has started gathering the required data.

**Note 3 - Restrictions on Cash and Amounts Due from Banks**

In March 2020, the Federal Reserve Board reduced the reserve requirements to zero. Consequently, there are no required reserve balances at December 31, 2021 and 2020.

**Note 4 - Investment Securities - Available for Sale**

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

	2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	\$ 6,981,337	\$ 104,741	\$ (74,711)	\$ 7,011,367
Municipal bonds	3,369,549	10,654	(13,914)	3,366,289
Total	<u>\$ 10,350,886</u>	<u>\$ 115,395</u>	<u>\$ (88,625)</u>	<u>\$ 10,377,656</u>

## AMB Financial Corp. and Subsidiary

# Notes to Consolidated Financial Statements

December 31, 2021 and 2020

### Note 4 - Investment Securities - Available for Sale (Continued)

	2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	\$ 5,504,367	\$ 211,770	\$ (670)	\$ 5,715,467

As of December 31, 2021, all municipal bonds have a contractual maturity ranging from 5 years through 10 years.

At December 31, 2021 and 2020, there were no investment securities pledged for any purpose.

For the years ended December 31, 2021 and 2020, there were no sales of investment securities. Accordingly, there were no gross realized gains or losses on the sale of securities for the years ended December 31, 2021 and 2020.

There were 14 and 2 investment securities in an unrealized loss position as of December 31, 2021 and 2020, respectively. Information pertaining to investment securities with gross unrealized losses at December 31, 2021 and 2020, aggregated by length of time that individual securities have been in a continuous loss position, is as follows:

	2021					
	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	\$ (74,462)	\$ 3,744,246	\$ (249)	\$ 30,913	\$ (74,711)	\$ 3,775,159
Municipal bonds	(13,914)	1,366,864	-	-	(13,914)	1,366,864
Total	<u>\$ (88,376)</u>	<u>\$ 5,111,110</u>	<u>\$ (249)</u>	<u>\$ 30,913</u>	<u>\$ (88,625)</u>	<u>\$ 5,142,023</u>

  

	2020					
	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	\$ -	\$ -	\$ (670)	\$ 81,088	\$ (670)	\$ 81,088

Unrealized losses on investment 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 investment 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.

# AMB Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

December 31, 2021 and 2020

### Note 5 - Loans and Allowance for Loan Losses

A summary of the balances of loans is as follows:

	2021	2020
One-to-four family	\$ 56,580,303	\$ 57,672,651
Multifamily	4,460,589	3,745,004
Nonresidential	80,814,243	72,682,142
Construction	12,850,471	8,064,656
Land	13,037,468	9,126,512
Equity lines of credit	8,488,175	8,102,829
Other consumer	1,012,320	957,344
Commercial business loans	37,843,332	29,980,746
Total loans	215,086,901	190,331,884
Less allowance for loan losses	2,570,000	2,475,000
Net loans	<u>\$ 212,516,901</u>	<u>\$ 187,856,884</u>
Allowance for loan losses as a percentage of loans	1.19 %	1.30 %

In the ordinary course of business, the Company has granted loans to principal officers and directors and their affiliates amounting to approximately \$1,433,000 and \$1,633,000 at December 31, 2021 and 2020, respectively. Such loans are made on substantially the same terms as those for other loan customers.

#### Paycheck Protection Program Loans

During 2021 and 2020, the Small Business Administration (SBA) funded loans under the Paycheck Protection Program (PPP) designed to provide liquidity to small businesses during the COVID-19 pandemic. The loans are guaranteed by the SBA, and loan proceeds to borrowers are forgivable by the SBA if certain criteria are met. The Company originated PPP loans totaling \$16,728,691 and \$21,684,300 during 2021 and 2020, respectively. There was approximately \$3,499,153 and \$12,432,392 of PPP loans included on the consolidated balance sheet within commercial business loans as of December 31, 2021 and 2020, respectively. PPP processing fees received from the SBA were deferred along with loan origination costs and recognized as interest income using the effective yield method. There was \$1,052,834 and \$949,657 of net fees deferred during 2021 and 2020, respectively. Upon forgiveness of a loan and resulting repayment by the SBA, any unrecognized net fee for a given loan is recognized as interest income. Fees of \$1,372,982 were recognized in 2021, and fees of \$517,315 were recognized in 2020.

The Company's activity in the allowance for loan losses for December 31, 2021 and 2020, by loan segment, is summarized below:

	Year Ended December 31, 2021				
	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
Allowance for loan losses:					
One-to-four family	\$ 614,594	\$ -	\$ 84,210	\$ (255,665)	\$ 443,139
Multifamily	33,212	-	-	(3,592)	29,620
Nonresidential	1,232,701	-	-	27,470	1,260,171
Construction	121,620	-	-	72,273	193,893
Land	115,617	-	-	25,715	141,332
Equity lines of credit	100,686	-	-	(14,401)	86,285
Other consumer	25,191	-	812	(11,530)	14,473
Commercial business loans	231,379	-	52	169,656	401,087
Total	<u>\$ 2,475,000</u>	<u>\$ -</u>	<u>\$ 85,074</u>	<u>\$ 9,926</u>	<u>\$ 2,570,000</u>

# AMB Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

December 31, 2021 and 2020

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

	Year Ended December 31, 2020				
	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
Allowance for loan losses:					
One-to-four family	\$ 667,206	\$ (305,000)	\$ 73,982	\$ 178,406	\$ 614,594
Multifamily	33,616	-	-	(404)	33,212
Nonresidential	980,529	-	9,481	242,691	1,232,701
Construction	135,365	-	-	(13,745)	121,620
Land	82,885	-	-	32,732	115,617
Equity lines of credit	101,483	-	-	(797)	100,686
Other consumer	21,743	-	6,618	(3,170)	25,191
Commercial business loans	127,173	-	981	103,225	231,379
<b>Total</b>	<b>\$ 2,150,000</b>	<b>\$ (305,000)</b>	<b>\$ 91,062</b>	<b>\$ 538,938</b>	<b>\$ 2,475,000</b>

The allowance for loan losses and loan balances for the years ended December 31, 2021 and 2020, by loan segment, are as follows:

	Year Ended December 31, 2021		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Ending Balance
Ending allowance attributable to loans:			
One-to-four family	\$ 25,235	\$ 417,904	\$ 443,139
Multifamily	-	29,620	29,620
Nonresidential	-	1,260,171	1,260,171
Construction	-	193,893	193,893
Land	-	141,332	141,332
Equity lines of credit	-	86,285	86,285
Other consumer	-	14,473	14,473
Commercial business loans	-	401,087	401,087
<b>Total</b>	<b>\$ 25,235</b>	<b>\$ 2,544,765</b>	<b>\$ 2,570,000</b>
Ending loans:			
One-to-four family	\$ 522,586	\$ 56,057,717	\$ 56,580,303
Multifamily	-	4,460,589	4,460,589
Nonresidential	-	80,814,243	80,814,243
Construction	-	12,850,471	12,850,471
Land	-	13,037,468	13,037,468
Equity lines of credit	130,824	8,357,351	8,488,175
Other consumer	-	1,012,320	1,012,320
Commercial business loans	-	37,843,332	37,843,332
<b>Total</b>	<b>\$ 653,410</b>	<b>\$ 214,433,491</b>	<b>\$ 215,086,901</b>

## AMB Financial Corp. and Subsidiary

# Notes to Consolidated Financial Statements

December 31, 2021 and 2020

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

	Year Ended December 31, 2020		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Ending Balance
Ending allowance attributable to loans:			
One-to-four family	\$ 41,381	\$ 573,213	\$ 614,594
Multifamily	-	33,212	33,212
Nonresidential	-	1,232,701	1,232,701
Construction	-	121,620	121,620
Land	-	115,617	115,617
Equity lines of credit	-	100,686	100,686
Other consumer	-	25,191	25,191
Commercial business loans	-	231,379	231,379
Total	\$ 41,381	\$ 2,433,619	\$ 2,475,000
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Ending Balance
Ending loans:			
One-to-four family	\$ 1,083,751	\$ 56,588,900	\$ 57,672,651
Multifamily	-	3,745,004	3,745,004
Nonresidential	260,695	72,421,447	72,682,142
Construction	-	8,064,656	8,064,656
Land	-	9,126,512	9,126,512
Equity lines of credit	81,490	8,021,339	8,102,829
Other consumer	-	957,344	957,344
Commercial business loans	-	29,980,746	29,980,746
Total	\$ 1,425,936	\$ 188,905,948	\$ 190,331,884

#### **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.

## AMB Financial Corp. and Subsidiary

# Notes to Consolidated Financial Statements

December 31, 2021 and 2020

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

#### 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.

The Company's credit quality indicators, by loan segment, at December 31, 2021 and 2020 are summarized below:

	December 31, 2021				
	Pass	Watch	Substandard	Doubtful	Ending Balance
One-to-four family	\$ 55,717,014	\$ 552,517	\$ 310,772	\$ -	\$ 56,580,303
Multifamily	4,460,589	-	-	-	4,460,589
Nonresidential	74,698,569	6,115,674	-	-	80,814,243
Construction	12,850,471	-	-	-	12,850,471
Land	12,955,640	81,828	-	-	13,037,468
Equity lines of credit	8,205,617	151,734	130,824	-	8,488,175
Other consumer	1,012,320	-	-	-	1,012,320
Commercial business loans	34,857,510	2,985,822	-	-	37,843,332
<b>Total</b>	<b>\$ 204,757,730</b>	<b>\$ 9,887,575</b>	<b>\$ 441,596</b>	<b>\$ -</b>	<b>\$ 215,086,901</b>

  

	December 31, 2020				
	Pass	Watch	Substandard	Doubtful	Ending Balance
One-to-four family	\$ 56,433,516	\$ 602,008	\$ 637,127	\$ -	\$ 57,672,651
Multifamily	3,745,004	-	-	-	3,745,004
Nonresidential	68,003,318	4,418,129	260,695	-	72,682,142
Construction	8,064,656	-	-	-	8,064,656
Land	9,027,580	98,932	-	-	9,126,512
Equity lines of credit	7,414,193	607,146	81,490	-	8,102,829
Other consumer	913,645	43,699	-	-	957,344
Commercial business loans	28,010,943	1,969,803	-	-	29,980,746
<b>Total</b>	<b>\$ 181,612,855</b>	<b>\$ 7,739,717</b>	<b>\$ 979,312</b>	<b>\$ -</b>	<b>\$ 190,331,884</b>

## AMB Financial Corp. and Subsidiary

# Notes to Consolidated Financial Statements

December 31, 2021 and 2020

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

#### Age Analysis of Past-due Loans

The Company's age analysis of past-due loans, by loan segment, at December 31, 2021 and 2020 is summarized below:

	December 31, 2021					
	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	\$ 1,423,003	\$ 198,561	\$ 1,621,564	\$ 54,958,739	\$ 56,580,303	\$ -
Multifamily	-	-	-	4,460,589	4,460,589	-
Nonresidential	-	456,013	456,013	80,358,230	80,814,243	456,013
Construction	-	-	-	12,850,471	12,850,471	-
Land	175,106	-	175,106	12,862,362	13,037,468	-
Equity lines of credit	49,334	-	49,334	8,438,841	8,488,175	-
Other consumer	-	-	-	1,012,320	1,012,320	-
Commercial business loans	156,198	47,234	203,432	37,639,900	37,843,332	47,234
<b>Total</b>	<b>\$ 1,803,641</b>	<b>\$ 701,808</b>	<b>\$ 2,505,449</b>	<b>\$ 212,581,452</b>	<b>\$ 215,086,901</b>	<b>\$ 503,247</b>

  

	December 31, 2020					
	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	\$ 587,606	\$ 648,639	\$ 1,236,245	\$ 56,436,406	\$ 57,672,651	\$ 133,356
Multifamily	-	-	-	3,745,004	3,745,004	-
Nonresidential	213,739	-	213,739	72,468,403	72,682,142	-
Construction	-	-	-	8,064,656	8,064,656	-
Land	-	98,932	98,932	9,027,580	9,126,512	98,932
Equity lines of credit	49,334	-	49,334	8,053,495	8,102,829	-
Other consumer	-	-	-	957,344	957,344	-
Commercial business loans	3,735	-	3,735	29,977,011	29,980,746	-
<b>Total</b>	<b>\$ 854,414</b>	<b>\$ 747,571</b>	<b>\$ 1,601,985</b>	<b>\$ 188,729,899</b>	<b>\$ 190,331,884</b>	<b>\$ 232,288</b>

#### 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.



## AMB Financial Corp. and Subsidiary

# Notes to Consolidated Financial Statements

December 31, 2021 and 2020

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

The Company's impaired loans, by loan segment, at December 31, 2021 and 2020 are summarized below:

As of and for the Year Ended December 31, 2021					
	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	\$ 310,772	\$ 943,257	\$ -	\$ 374,950	\$ 27,677
Nonresidential	-	-	-	43,206	2,903
Equity lines of credit	130,824	130,824	-	130,824	6,062
Other consumer	-	-	-	-	23
Total with no related allowance recorded	441,596	1,074,081	-	548,980	36,665
With an allowance recorded - One-to-four family	211,814	220,683	25,235	366,082	17,564
Total	\$ 653,410	\$ 1,294,764	\$ 25,235	\$ 915,062	\$ 54,229
As of and for the Year Ended December 31, 2020					
	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	\$ 637,127	\$ 1,266,406	\$ -	\$ 1,577,701	\$ 22,071
Multifamily	-	-	-	221,508	1,100
Nonresidential	260,695	261,654	-	434,062	43,428
Equity lines of credit	81,490	81,490	-	81,496	4,776
Other consumer	-	1,523	-	31	266
Total with no related allowance recorded	979,312	1,611,073	-	2,314,798	71,641
With an allowance recorded - One-to-four family	446,624	493,620	41,381	295,338	11,764
Total	\$ 1,425,936	\$ 2,104,693	\$ 41,381	\$ 2,610,136	\$ 83,405

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.

**Notes to Consolidated Financial Statements**

**December 31, 2021 and 2020**

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

***Nonaccrual Loans***

The Company's loans on nonaccrual status, by loan segment, at December 31, 2021 and 2020 are summarized below:

	2021	2020
One-to-four family	\$ 310,772	\$ 637,127
Nonresidential	-	260,695
Equity lines of credit	130,824	81,490
Total	\$ 441,596	\$ 979,312

***Troubled Debt Restructurings***

A modification of a loan constitutes a troubled debt restructuring 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.

There were no troubled debt restructurings during 2021 and 2020.

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

***CARES Act and Troubled Debt Restructurings***

In March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed into law. Among other things, the CARES Act suspends the requirements related to accounting for TDRs for certain loan modifications related to the COVID-19 pandemic, which remains in effect through January 1, 2022. As a result of the pandemic, the Company provided a modification program to borrowers that included certain concessions, such as interest only or payment deferrals. The Company granted qualifying pandemic-related modifications of loans totaling \$4,770,775 during 2021 and \$25,719,740 during 2020. As of December 31, 2021, no loans remain under pandemic-related modifications. As of December 31, 2020, there were loans of \$2,932,096 that remained under a modification agreement but were not disclosed as TDRs. Regardless of whether a modification was classified as a TDR, the Company continued to apply policies for risk rating, accruing interest, and classifying loans as impaired.

**Note 6 - Loan Servicing**

The Bank will, from time to time, sell loans to the Federal Home Loan Bank of Indianapolis. As such, the Bank may designate a portion of the loan portfolio to be classified as held for sale. There was \$656,901 and \$1,982,198 in loans classified as held for sale at December 31, 2021 and 2020, respectively. During the years ended December 31, 2021 and 2020, the Bank sold first mortgage loans approximating \$94,349,000 and \$104,829,000, respectively, to the FHLB and recognized gains of approximately \$1,760,000 and \$1,996,000, respectively, for the years then ended.

The Company retains the servicing on loans sold to the FHLB and recognized a gain of approximately \$605,000 and \$755,000 for the years ended December 31, 2021 and 2020, respectively, from the establishment of a mortgage servicing right asset. The carrying value of the Company's mortgage servicing rights was approximately \$1,091,000 and \$815,000 at December 31, 2021 and 2020, respectively, and included withing prepaid expenses and other assets on the consolidated balance sheet. During the years ended December 31, 2021 and 2020, the Company amortized approximately \$387,000 and \$336,000, respectively, of mortgage servicing rights against current servicing fee income.

## AMB Financial Corp. and Subsidiary

# Notes to Consolidated Financial Statements

December 31, 2021 and 2020

### Note 6 - Loan Servicing (Continued)

Loans serviced for the FHLB amounted to approximately \$189,214,000 and \$144,759,000 at December 31, 2021 and 2020, respectively. The fair value of the mortgage servicing rights related to these loans was approximately \$1,451,000 and \$1,212,000 at December 31, 2021 and 2020, respectively. The fair value of these servicing rights was determined using a discount rate of 10.0 percent as of December 31, 2021 and 2020. Conditional prepayment rates (CPR) ranged from 17.94 percent to 42.18 percent and 9.72 percent to 31.5 percent as of December 31, 2021 and 2020, respectively.

### Note 7 - Office Properties and Equipment

A summary of the cost and accumulated depreciation of office properties and equipment at December 31, 2021 and 2020 is as follows:

	2021	2020
Land	\$ 1,166,364	\$ 1,166,364
Buildings and building improvements	11,578,094	11,363,568
Furniture, fixtures, and equipment	2,506,402	2,342,555
Total cost	15,250,860	14,872,487
Accumulated depreciation	(5,851,319)	(5,426,796)
Net office properties and equipment	<u>\$ 9,399,541</u>	<u>\$ 9,445,691</u>

Depreciation expense for 2021 and 2020 totaled \$443,601 and \$439,649, 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, 2021, the Dyer, Indiana office location leased office and parking space to third-party tenants at an annual rent of approximately \$241,000 under lease agreements that terminate in 2022 through 2025. The Schererville, Indiana office location leased office and storage space to third-party tenants at an annual rent of approximately \$121,000 under lease agreements that terminate in 2022 and 2024. 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 2022.

### Note 8 - Deposits

The following is a summary of the distribution of deposits at December 31, 2021 and 2020:

	2021	2020
Passbook accounts	\$ 38,188,153	\$ 30,363,732
Demand deposits and NOW accounts	138,262,831	115,341,078
Money market accounts	16,291,186	13,377,852
Certificates of deposit:		
Under \$250,000	51,532,248	54,294,108
\$250,000 and over	7,244,687	10,096,582
Total	<u>\$ 251,519,105</u>	<u>\$ 223,473,352</u>

## AMB Financial Corp. and Subsidiary

# Notes to Consolidated Financial Statements

December 31, 2021 and 2020

### Note 8 - Deposits (Continued)

At December 31, 2021, the scheduled maturities of time deposits are as follows:

<u>Years Ending</u>	<u>Amount</u>
2022	\$ 45,009,348
2023	10,207,109
2024	3,246,295
2025	311,826
2026	2,357
Total	<u>\$ 58,776,935</u>

As of December 31, 2021 and 2020, deposit balances from officers and directors of the Company totaled approximately \$1,721,000 and \$1,773,000, respectively.

### Note 9 - Borrowed Funds

The Company has advances from the Federal Home Loan Bank of Indianapolis totaling \$5,000,000 and \$10,000,000 at December 31, 2021 and 2020, respectively. The fixed interest rate on the balance outstanding at December 31, 2021 is 2.89 percent, with interest payable monthly. The advance matures during 2023. The Bank has adopted a collateral pledge agreement where the Bank has agreed to keep on hand at all times, 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. The outstanding balance of the qualifying loans pledged as collateral to the FHLB at December 31, 2021 and 2020 was approximately \$101,711,000 and \$103,115,000, respectively. At December 31, 2021 and 2020, no securities were pledged for these borrowings.

At December 31, 2021, 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, 2021 or 2020.

### Note 10 - Guaranteed Preferred Beneficial Interest in Junior Subordinated Debentures

In 2007, the Company issued \$3,000,000 of junior subordinated debentures (the "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 the 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, 2021 and 2020 is 1.85 percent and 1.90 percent, respectively.

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, 2021, the Company is current on interest payments due to the holders of the junior subordinated debentures.

## Notes to Consolidated Financial Statements

**December 31, 2021 and 2020**

### **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, 2021 and 2020, 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 146.85 percent and 117.75 percent, respectively. As of July 1, 2021 and 2020, the Pre-MAP 21 funding target was 100.12 percent and 92.55 percent, respectively.

Contributions to the Pentegra DB Plan paid by the Bank during the years ended December 31, 2021 and 2020 amounted to \$458,878 and \$455,832, respectively. The Bank's contributions to the Pentegra DB Plan are no more than 5 percent of the total contributions to the Pentegra DB Plan. Pension expense for the years ended December 31, 2021 and 2020 amounted to \$457,355 and \$407,930, 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, 2021 and 2020 amounted to \$32,555 and \$29,568, 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 salaries 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 \$89,959 and \$93,269 for the years ended December 31, 2021 and 2020, respectively. Total accumulation of funds for the nonqualified plans and deferred director fees were \$884,060 and \$915,906 as of December 31, 2021 and 2020, respectively.

**Notes to Consolidated Financial Statements**

**December 31, 2021 and 2020**

**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 \$33,000 of expense charged against income for incentive stock options and nonqualified stock options during both 2021 and 2020. There was approximately \$38,000 of expense charged against income for restricted stock during both 2021 and 2020.

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, 2021 and 2020 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, 2020	64,050	\$ 16.00	6.51	\$ 64,050.00
Outstanding at December 31, 2020	<u>64,050</u>	16.00	5.51	-
Outstanding at January 1, 2021	<u>64,050</u>	16.00	5.51	-
Outstanding at December 31, 2021	<u>64,050</u>	16.00	4.51	576,450.00
Vested at December 31, 2021	30,410	-		-

As of December 31, 2021, there was approximately \$138,000 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 2021 or 2020. During both 2021 and 2020, 2,360 stock awards were vested. There were no restricted stock awards forfeited during 2021 or 2020. There were 11,210 and 13,570 restricted stock awards outstanding at December 31, 2021 and 2020, respectively.

**Notes to Consolidated Financial Statements**

**December 31, 2021 and 2020**

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

As of December 31, 2021, there was approximately \$163,000 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 4.7 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 \$60,000 for both of the years ended December 31, 2021 and 2020. Eligible employees were vested in their proportionate shares of ESOP contributions at December 31, 2021.

**Note 13 - Income Taxes**

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

	2021	2020
Deferred tax (liability) assets:		
Deferred compensation for officers	\$ 207,538	\$ 211,620
Allowance for loan losses	651,367	637,065
Allowance for uncollected interest	89,012	75,560
Allowance for loss on mortgage loan sales	2,571	2,611
Deferred interest and charges on modified loans	12,660	17,660
Other real estate owned write-downs	5,525	5,611
Other	9,250	11,144
Total deferred tax assets	977,923	961,271
Deferred tax liabilities:		
Accelerated tax depreciation	(550,945)	(492,380)
FHLB stock dividend	(20,596)	(20,917)
Prepaid pension expense	(58,151)	(58,666)
Mortgage servicing rights	(276,470)	(209,723)
Unrealized gain on available-for-sale securities	(11,662)	(56,610)
Other	(93,079)	(99,436)
Total deferred tax liabilities	(1,010,903)	(937,732)
Net deferred tax (liability) asset	\$ (32,980)	\$ 23,539

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

	2021	2020
Current	\$ 1,168,984	\$ 797,965
Deferred	101,467	76,350
Total income tax expense	\$ 1,270,451	\$ 874,315

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

	2021	2020
Federal	\$ 1,027,521	\$ 719,766
State	242,930	154,549
Total	\$ 1,270,451	\$ 874,315

**Notes to Consolidated Financial Statements**

**December 31, 2021 and 2020**

**Note 13 - Income Taxes (Continued)**

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

	2021	2020
Income before income taxes	\$ 5,051,103	\$ 3,666,529
Income tax expense at federal statutory rate	1,060,732	769,971
State income taxes - Net of federal income tax expense	219,470	173,793
Increase resulting from permanent differences	22,951	11,525
Other	(32,702)	(80,974)
Total	<u>\$ 1,270,451</u>	<u>\$ 874,315</u>

Retained earnings at December 31, 2021 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, 2021 and 2020, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2021, 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 table. There are no conditions or events since the notification that management believes have changed the Bank's category. At December 31, 2021, the Bank's average total assets were approximately \$288,847,000, and its risk-weighted assets were approximately \$213,678,000. The Bank's actual capital amounts and ratios as of December 31, 2021 and 2020 are also presented in the table.



## AMB Financial Corp. and Subsidiary

# Notes to Consolidated Financial Statements

December 31, 2021 and 2020

### Note 14 - Minimum Regulatory Capital Requirements (Continued)

This table does 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.

(000s omitted)	Actual		Minimum for Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of December 31, 2021</b>						
Common equity Tier 1 capital (to risk-weighted assets)	\$ 26,534	12.42 %	\$ 9,616	4.50 %	\$ 13,889	6.50 %
Total risk-based capital (to risk-weighted assets)	29,104	13.62	17,094	8.00	21,368	10.00
Tier 1 capital (to risk-weighted assets)	26,534	12.42	12,821	6.00	17,094	8.00
Tier 1 capital (to average assets)	26,534	9.19	11,554	4.00	14,442	5.00
<b>As of December 31, 2020</b>						
Common equity Tier 1 capital (to risk-weighted assets)	23,561	13.03	8,136	4.50	11,752	6.50
Total risk-based capital (to risk-weighted assets)	25,823	14.28	14,464	8.00	18,080	10.00
Tier 1 capital (to risk-weighted assets)	23,561	13.03	10,848	6.00	14,464	8.00
Tier 1 capital (to adjusted total assets)	23,561	9.09	10,369	4.00	12,961	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:

	2021	2020
Net income available to common stockholders	\$ 3,780,652	\$ 2,792,214
Weighted-average number of common shares outstanding used in basic EPS calculation	945,693	966,339
Basic earnings per common share	\$ 4.00	\$ 2.89
Weighted-average common shares and equivalents outstanding for diluted computation	951,666	969,377
Diluted earnings per common share	\$ 3.97	\$ 2.88

### 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.

## Notes to Consolidated Financial Statements

December 31, 2021 and 2020

### **Note 16 - Financial Instruments with Off-balance-sheet Risk (Continued)**

Commitments to originate mortgage loans of approximately \$5,926,000 and \$9,556,000 at December 31, 2021 and 2020, 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 2.88 percent to 3.13 percent and 2.25 percent to 2.75 percent at December 31, 2021 and 2020, 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 has approved but unused home equity lines of credit of approximately \$13,076,000 and \$11,510,000 at December 31, 2021 and 2020, respectively. In addition, the Bank has approved but unused equity lines of credit on various construction and commercial projects of approximately \$15,567,000 and \$11,491,000 at December 31, 2021 and 2020, respectively. The Bank also has approved but unused business nonreal estate lines of credit of approximately \$8,175,000 and \$8,253,000 at December 31, 2021 and 2020, 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, 2021 and 2020, the unused line was approximately \$980,000 and \$292,000, respectively.

The Bank has also issued outstanding letters of credit on behalf of third parties totaling approximately \$2,230,000 and \$1,856,000 at December 31, 2021 and 2020, 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 where 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 value 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.

#### ***Interest-bearing Deposits in Other Depository Institutions***

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

#### ***Investment 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.

**Note 18 - Fair Value of Financial Instruments (Continued)**

***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.

## AMB Financial Corp. and Subsidiary

# Notes to Consolidated Financial Statements

December 31, 2021 and 2020

### Note 18 - Fair Value of Financial Instruments (Continued)

The carrying amounts and estimated fair values of the Company's financial instruments as of December 31, 2021 and 2020 are as follows:

	2021		2020	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial Assets</b>				
Cash and cash equivalents	\$ 45,758,366	\$ 45,758,366	\$ 48,006,581	\$ 48,006,581
Investment securities -				
Available for sale	10,377,656	10,377,656	5,715,467	5,715,467
Federal Home Loan Bank stock	2,693,400	2,693,400	1,372,000	1,372,000
Loans held for sale	656,901	656,901	1,982,198	1,982,198
Loans receivable - Gross	212,516,901	214,040,099	187,856,884	189,370,802
Accrued interest receivable	749,497	749,497	717,061	717,061
<b>Financial Liabilities</b>				
Deposits	251,519,105	245,549,941	223,473,352	221,282,126
Borrowed funds	5,000,000	5,000,000	10,000,000	10,000,000
Junior subordinated debentures	3,093,000	3,093,000	3,093,000	3,093,000
Accrued interest payable	11,201	11,201	15,661	15,661

### 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.

**Notes to Consolidated Financial Statements**

**December 31, 2021 and 2020**

**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, 2021 and 2020:

	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
<b>December 31, 2021</b>				
Investment securities:				
Mortgage-backed securities	\$ -	\$ 7,011,367	\$ -	\$ 7,011,367
Municipal bonds	-	3,366,289	-	3,366,289
Loans held for sale	-	656,901	-	656,901
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 11,034,557</b>	<b>\$ -</b>	<b>\$ 11,034,557</b>
<b>December 31, 2020</b>				
Mortgage-backed securities	\$ -	\$ 5,715,467	\$ -	\$ 5,715,467
Loans held for sale	-	1,982,198	-	1,982,198
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 7,697,665</b>	<b>\$ -</b>	<b>\$ 7,697,665</b>

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 (loss) 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, 2021 and 2020.

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, 2021 and 2020:

	Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2021			
	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, 2021
Impaired loans	\$ -	\$ -	\$ 628,175	\$ 628,175
Other real estate owned	-	-	18,050	18,050

**Notes to Consolidated Financial Statements**

**December 31, 2021 and 2020**

**Note 19 - Fair Value Measurements (Continued)**

	Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2020			
	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, 2020
Impaired loans	\$ -	\$ -	\$ 1,384,555	\$ 1,384,555
Other real estate owned	-	-	1,277,449	1,277,449

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 20, 2022 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 2021.

<u>Quarter Ended</u>	<u>Low</u>	<u>High</u>	<u>Dividends</u>
March 31, 2021	\$16.00	\$19.00	\$0.00
June 30, 2021	\$17.35	\$18.55	\$0.00
September 30, 2021	\$18.50	\$21.25	\$0.00
December 31, 2021	\$20.00	\$25.00	\$0.00

As of December 31, 2021, the Company had 923,053 outstanding shares of common stock.

**Shareholder General Inquiries**

Michael Mellon, President  
AMB Financial Corp.  
7880 Wicker Avenue, Suite 101  
St. John, Indiana 46373  
(219) 365-6700

**Transfer Agent**

Computershare Shareholder Services  
211 Quality Circle, Suite 210  
College Station TX 77845  
(800) 368-5948

**AMB Financial Corp.  
Corporate Information**

**Corporate Office**

AMB Financial Corp.  
7880 Wicker Avenue  
Suite 101  
St. John, IN 46373

Telephone (219) 365-6700  
Fax (219) 365-9106  
Web site [www.acbanker.com](http://www.acbanker.com)

**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

**Independent Auditors**

Plante & Moran, PLLC  
10 S. Riverside Plaza, 9<sup>th</sup> Floor  
Chicago, IL 60606

**Officers of AMB Financial Corp.**

Michael Mellon  
President, Chief Executive Officer

Steven Bohn  
Chief Financial Officer, Senior Vice President

Denise Knapp  
Corporate Secretary

Mohammad Saleem  
Senior Vice President

Brian Specht  
Senior Vice President

Ginger Watts  
Senior Vice President

Todd Williams  
Senior Vice President

**Corporate Counsel / Local**

Abrahamson, Reed & Bilse  
8230 Hohman Ave.  
Munster, IN 46321

**Corporate Counsel / Washington DC**

Luse Gorman, PC  
5335 Wisconsin Avenue, N.W.  
Suite 780  
Washington, D.C. 20015

**Annual and Other Reports**

The Company's reports, including additional information regarding 2021, are posted on its website at <https://www.acbanker.com>.





7880 Wicker Avenue | St. John, Indiana 46373 | (219) 365-6700