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

Financial Report
For the Three and Nine Months Ended
September 30, 2021

Note: This report is intended to be read in conjunction with our Annual Report to Stockholders for the year ended December 31, 2020, copies of which are included on this website. This report is dated September 30, 2021 and should not be read to cover any subsequent periods. We specifically disclaim any obligation to update this report even if the contents thereof should become misleading.

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

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AMB Financial Corp. and Subsidiaries
Consolidated Balance Sheets

Assets	September 30, 2021 (unaudited)	December 31, 2020 (audited)
Cash and amounts due from depository institutions	$ 2,089,089	$ 2,441,616
Interest-bearing deposits	45,239,957	45,564,965
Total cash and cash equivalents	47,329,046	48,006,581
Investment Securities, available for sale, at fair value	1,133,366	-
Mortgage backed securities, available for sale, at fair value	6,679,803	5,715,467
Stock in Federal Home Loan Bank of Indianapolis, at cost	2,434,900	1,372,000
Loans held for sale	1,741,500	1,982,198
Loans receivable (net of allowance for loan losses) $2,553,000 at September 30, 2021 and $2,475,000 at December 31, 2020)	201,402,951	187,856,884
Other real estate owned	18,050	1,277,449
Accrued interest receivable	703,528	717,061
Office properties and equipment- net	9,293,569	9,445,691
Bank owned life insurance	3,876,868	3,823,587
Prepaid expenses and other assets	1,996,403	2,075,259
Total assets	$ 276,609,984	$ 262,272,177
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$ 240,846,170	$ 223,473,352
Borrowed money	5,000,000	10,000,000
Junior subordinated debentures	3,093,000	3,093,000
Other liabilities	2,994,489	3,053,006
Total liabilities	$ 251,933,659	$ 239,619,358
Stockholders' Equity		
Common Stock, $.01 par value; authorized 1,900,000 shares; 1,683,641 shares issued and 923,053 outstanding at September 30, 2021 and 967,712 outstanding at December 31, 2020	$ 16,837	$ 16,837
Additional paid-in capital	11,736,165	11,710,397
Retained earnings	21,808,614	18,814,448
Accumulated other comprehensive income (loss), net of tax	78,396	154,490
Treasury stock, at cost (760,588 shares outstanding at September 30, 2021 and 715,929 shares outstanding at December 31, 2020)	(8,963,687)	(8,043,353)
Total stockholders' equity	$ 24,676,325	$ 22,652,819
Total liabilities and stockholders' equity	$ 276,609,984	$ 262,272,177

See accompanying notes to audited consolidated financial statements.

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

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Interest income				
Interest on Loans	2,979,627	$ 2,371,772	8,009,091	$ 6,883,362
Interest on mortgage-backed securities	25,135	30,265	73,526	113,309
Interest on other investment securities	3,346	-	3,860	-
Interest on interest-bearing deposits	15,730	7,218	34,521	64,765
Dividends on Federal Home Loan Bank stock	19,485	12,052	40,424	34,230
Total interest income	$ 3,043,323	$ 2,421,307	$ 8,161,422	$ 7,095,666
Interest expense				
Interest on deposits	$ 227,196	$ 388,956	$ 831,195	$ 1,347,182
Interest on borrowings	50,534	71,726	182,849	226,659
Total interest expense	$ 277,730	$ 460,682	$ 1,014,044	$ 1,573,841
Net interest income	$ 2,765,593	$ 1,960,625	$ 7,147,378	$ 5,521,825
Provision for loan losses	337	150,000	9,109	481,186
Net interest income after provision for loan losses	$ 2,765,256	$ 1,810,625	$ 7,138,269	$ 5,040,639
Non-interest income:				
Loan fees and service charges	$ 128,935	$ 63,919	$ 309,079	$ 158,634
Deposit related fees	82,100	72,025	230,177	208,469
Other fee income	6,748	22,349	51,425	64,504
Rental Income	94,591	73,238	319,621	263,646
Gain on sale of loans	393,289	722,338	1,921,832	1,547,250
Net gain on sale of other real estate owned	-	(35,054)	201,766	(30,814)
Increase in cash surrender value of life insurance	18,023	18,181	53,281	53,870
Benefit from bank-owned life insurance	-	13,242	-	13,242
Other income	63,803	21,835	112,885	83,257
Total non-interest income	$ 787,489	$ 972,073	$ 3,200,066	$ 2,362,058
Non-interest expense:				
Staffing costs	$ 1,301,774	$ 1,128,352	$ 3,549,323	$ 3,116,565
Advertising	158,641	54,159	303,051	118,529
Occupancy and equipment expense	215,361	230,829	636,464	678,569
Data processing	251,289	202,150	748,635	605,455
Professional fees	77,035	84,765	243,156	186,173
Federal deposit insurance premiums	29,999	36,656	89,635	113,038
Insurance expense	23,869	28,384	66,964	79,565
Other operating expenses	206,300	252,041	663,702	686,288
Total non-interest expense	$ 2,264,268	$ 2,017,336	$ 6,300,930	$ 5,584,182
Income before income taxes	$ 1,288,477	$ 765,362	$ 4,037,405	$ 1,818,515
Income tax expense	336,433	199,574	1,043,242	467,772
Net income available to common shareholders	952,044	565,788	2,994,163	1,350,743
Earnings per common share:				
Basic	$ 1.03	$ 0.59	$ 3.14	$ 1.40
Diluted	$ 1.02	$ 0.58	$ 3.13	$ 1.39

See accompanying notes to audited consolidated financial statements.

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

	Nine Months Ended September 30,	
	2021	2020
Net income	$ 2,994,163	$ 1,350,743
Other comprehensive (loss) income, net of tax:		
Unrealized gains on securities		
available for sale--		
Unrealized holding (loss) gain arising during the period	(76,094)	116,648
Other comprehensive (loss) income, net of tax	(76,094)	116,648
Total comprehensive income	$ 2,918,069	$ 1,467,391

See accompanying notes to audited consolidated financial statements.

AMB Financial Corp. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
For the Nine Months Ended September 30, 2021 and 2020
(unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 2019	$ 16,837	$11,665,843	$16,022,234	$ 44,400	$ (8,069,856)	$19,679,458
Net income			1,350,743			1,350,743
Other comprehensive income, net of tax				116,648		116,648
Vesting of 2,360 share of Restricted Stock Issued from Treasury Stock		(26,503)			26,503	-
Stock-based compensation expense		53,290				53,290
Balance at September 30, 2020	$ 16,837	$11,692,630	$17,372,977	$ 161,048	$ (8,043,353)	$21,200,142
Balance at December 31, 2020	$ 16,837	$11,710,394	$18,814,451	$ 154,490	$ (8,043,353)	$22,652,819
Net income			2,994,163			2,994,163
Other comprehensive income, net of tax				(76,094)		(76,094)
Vesting of 2,360 share of Restricted Stock Issued from Treasury Stock		(27,518)			27,518	-
Stock-based compensation expense		53,289				53,289
Common sharees repurchased - Retired as Treasury stock					(947,852)	(947,852)
Balance at September 30, 2021	$ 16,837	$11,736,165	$21,808,614	$ 78,396	$ (8,963,687)	$24,676,325

See accompanying notes to audited consolidated financial statements.

AMB Financial Corp. and Subsidiaries

Consolidated Statements of Cash Flows

(unaudited)

	Nine Months Ended September 30, 2021	2020
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 2,994,163	$ 1,350,743
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	330,815	328,510
Amortization of premiums and accretion of discounts	(67,169)	60,741
Proceeds from sale of loans originated for sale	76,726,085	67,057,566
Loans originated for sale	(75,284,535)	(65,976,075)
Gain on sale of loans	(1,921,832)	(1,547,250)
(Gain) loss on sale of other real estate owned	(201,766)	30,814
Provision for loan losses	9,109	481,186
Stock based compensation expense	53,289	53,290
Net change in:		
Increase in cash surrender value of life insurance	(53,281)	(53,870)
(Decrease) increase in deferred yield adjustments on loans	(171,138)	856,290
Increase in prepaid and deferred income taxes	(379,656)	(150,671)
Decrease (increase) in accrued interest receivable	13,533	(52,474)
Decrease in other assets	608,287	355,738
Increase in other liabilites	296,522	238,066
Net cash provided by (for) operating activities	2,952,426	3,032,604
Cash flows from investing activities:		
Purchase of Investment Securities	(1,050,000)	-
Purchase of mortgage-backed securities	(3,009,930)	(500,000)
Proceeds from repayments of mortgage-backed securities	1,928,771	2,322,500
Change in loans held for sale	240,698	(2,425,917)
Net increase in loans	(13,384,038)	(20,994,635)
Real estate owned expenditures	-	(67,060)
Proceeds from sale of other real estate owned	1,461,165	224,119
Purchase of Federal Home Loan Bank stock	(1,062,900)	-
Proceeds from the sale of other assets	-	36,835
Proceeds from redemption of life insurance	-	88,282
Property and equipment expenditures, net	(178,693)	(211,341)
Net cash used for investing activities	(15,054,927)	(21,527,217)
Cash flows from financing activities:		
Net increase in deposits	17,301,879	26,399,713
Proceeds from borrowed funds	-	-
Repayment of borrowed funds	(5,000,000)	-
Net (decrease) in advance payments by borrowers for taxes and insurance	70,939	226,605
Other equity adjustments	-	(26,503)
Share repurchase program common stock	(947,852)	26,503
Net cash provided by financing activities	11,424,966	26,626,318
Net change in cash and cash equivalents	(677,535)	8,131,705
Cash and cash equivalents at beginning of period	48,006,581	20,127,726
Cash and cash equivalents at end of period	$ 47,329,046	$ 28,259,431
Supplemental disclosure of cash flow information:		
Interest paid	$ 1,009,004	$ 1,569,599
Income taxes paid	945,000	298,000
Transfer of loans to other real estate owned	-	1,207,262

See accompanying notes to audited consolidated financial statements.

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

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020
Net income available to common shareholders	$ 952,044	$ 565,788
Weighted average common shares outstanding for basic computation	930,258	966,917
Basic income per common share	$ 1.03	$ 0.59
Weighted average common shares outstanding for basic computation	930,258	966,917
Common stock equivalents due to dilutive effect of restricted stock	5,409	3,434
Weighted average common shares and equivalents outstanding for diluted computation	935,667	970,351
Diluted income per common share	$ 1.02	$ 0.58

	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Net income available to common shareholders	$ 2,994,163	$ 1,350,743
Weighted average common shares outstanding for basic computation	950,499	965,877
Basic income per common share	$ 3.15	$ 1.40
Weighted average common shares outstanding for basic computation	950,499	965,877
Common stock equivalents due to dilutive effect of restricted stock	5,409	3,434
Weighted average common shares and equivalents outstanding for diluted computation	955,908	969,311
Diluted income per common share	$ 3.13	$ 1.39

See accompanying notes to audited consolidated financial statements.

AMB Financial Corp
And Subsidiaries

Status as Non-Reporting Company. We are not subject to the reporting requirements of Section 13 of the Securities Exchange Act of 1934 and accordingly this report has not been prepared in accordance with applicable Securities Exchange Commission rules. This report is intended to cover the three and nine month periods ended September 30, 2021 and should not be read to cover any other periods.

Notes to Consolidated Financial Statements. The accompanying unaudited consolidated financial statements have been prepared based on accounting principles generally accepted in the United States of America and in the opinion of management contain all adjustments (all of which are normal and recurring in nature) necessary for a fair presentation. The results of operations for the three and nine months ended September 30, 2021 are not necessarily indicative of the results expected for the year ending December 31, 2021. The September 30, 2021 consolidated financial statements should be read in conjunction with the consolidated financial statements and notes for the year ended December 31, 2020 included in the Company's Annual Report. The Company's consolidated statement of condition as of December 31, 2020 has been derived from the Company's audited consolidated statement of condition as of that date.

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

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

Earnings per Share. Earnings per share for the three and nine month periods ended September 30, 2021 and 2020 were determined by dividing net income available to common shareholders for the periods by the weighted average number of both basic and diluted shares of common stock, as well as common stock equivalents outstanding.

Reclassifications. Certain 2020 items or amounts may have been reclassified or restated to conform to the 2021 presentation.

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

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

- The current condition of the United States economy in general and in our local economy (including unemployment) in which we conduct operations;
- the effects of, and changes in, trade, monetary and fiscal policies, and laws, including interest rate policies of the Federal Reserve Board and the United States Treasury ("UST");
- our ability to manage and reduce our non-performing assets;
- our ability to repay our holding company debt, including our $3 million of trust preferred stock, when due;
- the impact of new 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 deteriorate, this economic environment could have an adverse effect on our business and operations, including, but not limited to, decreased demand for the Company's products and services, protracted periods of lower interest rates, loss of income resulting from deferrals and fee waivers provided by the Company to its consumer and commercial borrowers, increased credit losses due to deterioration in the financial condition of our consumer and commercial borrowers, including declining asset and collateral values, which may result in increases in provision for credit losses and net charge-offs. The business operations of the Company may also be disrupted if significant portions of its workforce or those of vendors or third-party service providers are unable to work effectively, including because of illness, quarantines, government actions, restrictions in connection with the pandemic, and technology limitations and/or disruptions. The Company also faces an increased risk of litigation and governmental and regulatory scrutiny because of the effects of the pandemic on market and economic conditions and actions taken by governmental authorities in response to those conditions.

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

The Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), the Consumer Financial Protection Bureau (CFPB), and the State Banking Regulators (hereafter, the agencies) provided guidance to financial institutions to work with borrowers affected by the COVID-19. The Company has established a loan deferral program to provide temporary relief for borrowers who are experiencing short-term financial or operational problems because of COVID-19. At September 30, 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 $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.

Financial Condition. Total assets of the Company were $276.6 million on September 30, 2021, an increase of $14.3 million, from $262.3 million on December 31, 2020. The change was primarily due to a $13.5 million increase in loans receivable.

Cash and cash equivalents, which consist primarily of interest-earning deposits, totaled $47.3 million on September 30, 2021, a decrease of $0.7 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 $1.1 million to $1.1 million on September 30, 2021, from $0 on December 31, 2020. The increase was the result of new purchases of $1.1 million. The Company recorded an unrealized loss on available for sale investment securities of $8,000 on September 30, 2021 compared to a $0 unrealized loss on December 31, 2020. These amounts are included as part of the carrying cost of mortgage-backed securities, available for sale, at each respective period.

Mortgage-backed securities, available for sale, increased $1.0 million to $6.7 million on September 30, 2021, from $5.7 million on December 31, 2020. The increase was the result of new purchases totaling $3.0 million, offset, in part, by principal repayments totaling $1.9 million, and a $92,000 decrease in the unrealized gain on available for sale mortgage-backed securities. The Company recorded an unrealized gain on available for sale mortgage-backed securities of $119,000 on September 30, 2021 compared to a $211,000 unrealized gain on December 31, 2020. These amounts are included as part of the carrying cost of mortgage-backed securities, available for sale, at each respective period.

The Bank is a member of the FHLBI and had a $2.4 million investment in stock of the FHLBI on September 30, 2021, a $1.0 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 $201.4 million on September 30, 2021, a $13.5 million increase from the $187.9 million balance on December 31, 2020. Loans held for sale totaled $1.7 million on September 30, 2021, a $0.2 million decrease from the $1.9 million balance on December 31, 2020. The increase in loans was impacted by the Company's participation in the Small Business Administration's Paycheck Protection Program (SBA PPP). Section 1102 of the CARES Act temporarily adds a new product, titled the "Paycheck Protection Program," to the U.S. Small Business Administration's (SBA's) 7(a) Loan Program. Section 1106 of the Act provides for forgiveness of up to the full principal amount of qualifying loans guaranteed under the Paycheck Protection Program. The Paycheck Protection Program and loan forgiveness was designed to provide a direct incentive for small businesses to keep their workers on the payroll due to disruptions caused by COVID-19. On September 30, 2021, SBA PPP net loans totaled $6.0 million, a $6.4 million decrease from the $12.4 million balance at December 31, 2020. The Company originated $75.3 million of loans held for sale which were subsequently sold during the nine month period ended September 30, 2021, as compared to $66.0 million during the prior year period. The increase in loan sales is due to the substantial decline in interest rates which has accelerated refinancing activity. Loans originated for sale are fixed-rate, single-family mortgage loans, which are sold to manage interest rate risk and generate fee income.

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

The allowance for loan losses totaled $2,553,000 on September 30, 2021, representing a $78,000 increase as compared to December 31, 2020. The Bank's allowance for loan losses to total loans was 1.25% on September 30, 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.

The following table sets forth the activity in the allowance for loan losses for the nine months ended September 30, 2021 and 2020.

	Nine Months Ended Sept. 30, 2021	Nine Months Ended Sept. 30, 2020
Balance at beginning of period:	$2,475,000	$2,150,000
Charge-offs:		
Total charge-offs	-	305,000
Recoveries:		
One- to four family	68,027	65,734
Non-residential	-	9,480
Consumer	812	5,511
Commercial business	52	629
Total recoveries	68,891	81,354
Net recoveries (charge-offs)	68,891	(223,646)
Provisions for loan losses	9,109	481,186
Balance at end of period	$2,553,000	$2,407,540
Ratio of net recoveries during the period to average gross loans outstanding during the period	0.03%	(0.12)%
Ratio of net recoveries during the period to average non-performing loans during the period	12.46%	(11.39)%

Loans receivable are summarized as follows at the dates indicated:

	September 30, 2021	December 31, 2020
Mortgage loans:		
One-to-four family	$ 55,846,068	$ 57,672,651
Multi-family	3,759,013	3,745,004
Non-residential	72,744,993	72,682,142
Construction	14,847,481	8,064,656
Land	12,960,524	9,126,512
Equity lines of credit	7,314,942	8,102,829
Consumer	1,110,728	957,344
Commercial business loans - SBA PPP	5,963,640	12,432,392
Commercial business loans	29,408,562	17,548,354
Total loans	203,955,951	190,331,884
Less:		
Allowance for loan losses	2,553,000	2,475,000
Loans receivable, net	$ 201,402,951	$ 187,856,884
Allowance for loan losses as a percentage of loans	1.25%	1.30%

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

	September 30, 2021	December 31, 2020
Substandard non-accruing loans:		
One- to four-family	$ 318,385	$ 637,127
Non-residential	0	260,695
Equity lines of credit	81,490	81,490
Total substandard non-accruing loans	$ 399,875	$ 979,312
Total loans receivable	$ 203,955,951	$ 190,331,884
Total non-accrual / loans receivable	0.20%	0.51%
Total classified loans	$ 399,875	$ 979,312
Total loans receivable	$ 203,955,951	$ 190,331,884
Total classified loans / loans receivable	0.20%	0.51%
Substandard other real estate owned:		
One- to four-family	$ 0	$ 1,259,399
Land	18,050	18,050
Total substandard other real estate owned	$ 18,050	$ 1,277,449
Total classified assets	$ 417,925	$ 2,256,761
Total assets	$ 276,609,984	$ 262,272,177
Total classified assets / total assets	0.15%	0.86%

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

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

	Allowance for Loan Losses					
	At September 30, 2021			At December 31, 2020		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
One-to-four family	$ 25,719	$ 473,503	$ 499,222	$ 41,381	$ 573,213	$ 614,594
Multi-family	-	28,985	28,985	-	33,212	33,212
Non-residential	-	1,180,925	1,180,925	-	1,232,701	1,232,701
Construction	-	213,992	213,992	-	121,620	121,620
Land	-	156,962	156,962	-	115,617	115,617
Equity lines of credit	-	82,488	82,488	-	100,686	100,686
Other consumer	-	28,384	28,384	-	25,191	25,191
Commercial business loans	-	362,042	362,042	-	231,379	231,379
Total	$ 25,719	$ 2,527,281	$ 2,553,000	$ 41,381	$ 2,433,619	$ 2,475,000

	Loan Balances					
	At September 30, 2021			At December 31, 2020		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
One-to-four family	$ 531,461	$ 55,314,607	$ 55,846,068	$ 1,083,751	$ 56,588,900	$ 57,672,651
Multi-family	-	3,759,013	3,759,013	-	3,745,004	3,745,004
Non-residential	-	72,744,993	72,744,993	260,695	72,421,447	72,682,142
Construction	-	14,847,481	14,847,481	-	8,064,656	8,064,656
Land	-	12,960,524	12,960,524	-	9,126,512	9,126,512
Equity lines of credit	81,490	7,233,452	7,314,942	81,490	8,021,339	8,102,829
Other consumer	-	1,110,728	1,110,728	-	957,344	957,344
Commercial business loans	-	35,372,202	35,372,202	-	29,980,746	29,980,746
Total	$ 612,951	$ 203,343,000	$ 203,955,951	$ 1,425,936	$ 188,905,948	$ 190,331,884

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

	September 30, 2021	December 31, 2020
Period end loans with allocated allowance for loan losses	$ 213,076	$ 446,624
Period end loans with no allocated allowance for loan losses	399,875	979,312
Total	$ 612,951	$ 1,425,936
Valuation reserve relating to impaired loans	$ 25,719	$ 41,381

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

	At September 30, 2021		At December 31, 2020	
	Unpaid Principal Balance	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Allowance for Loan Losses Allocated
With an allowance recorded:				
One-to-four family	$ 213,076	$ 25,719	$ 446,624	$ 41,381
With no related allowance recorded:				
One-to-four family	318,385	-	637,127	-
Non-residential	-	-	260,695	-
Equity lines of credit	81,490	-	81,490	-
Total	$ 612,951	$ 25,719	$ 1,425,936	$ 41,381

Nonaccrual loans are summarized as follows:

	September 30, 2021	December 31, 2020
One-to-four family	$ 318,385	$ 637,127
Non-residential	-	260,695
Equity lines of credit	81,490	81,490
Total	$ 399,875	$ 979,312

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

	September 30, 2021					
	30 - 89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans Not Past Due	Total	Recorded Investment > 90 Days and Accruing
One-to-four family	$ 41,688	$ 324,778	$ 366,466	$ 55,479,602	$ 55,846,068	$ 49,334
Multi-family	-	-	-	3,759,013	3,759,013	-
Non-residential	-	-	-	72,744,993	72,744,993	-
Construction	-	-	-	14,847,481	14,847,481	-
Land	-	-	-	12,960,524	12,960,524	-
Equity lines of credit	-	-	-	7,314,942	7,314,942	-
Other consumer	26,549	-	26,549	1,084,179	1,110,728	-
Commercial business loans	586,465	-	586,465	34,785,737	35,372,202	-
Total	$ 654,702	$ 324,778	$ 979,480	$ 202,976,471	$ 203,955,951	$ 49,334

	December 31, 2020					
	30 - 89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans Not Past Due	Total	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
Multi-family	-	-	-	3,745,004	3,745,004	-
Non-residential	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	-
Total	$ 854,414	$ 747,571	$ 1,601,985	$ 188,729,899	$ 190,331,884	$ 232,288

The Company has allocated $25,719 and $41,381 of loan loss reserves to customers whose loan terms have been modified in troubled debt restructurings as of September 30, 2021 and December 31, 2020, respectively.

The following table presents loans classified as troubled debt restructurings.

	September 30, 2021	December 31, 2020
Trouble debt restructured loans - accrual loans	213,076	446,624
Total	$ 213,076	$ 446,624

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 $0.4 million on September 30, 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 $400,000, or 0.20% of total loans receivable at September 30, 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 September 30, 2021 and December 31, 2020.

The ratio of allowance for loan losses to classified and criticized loans was 638.4% on September 30, 2021, compared to 252.7% on December 31, 2020.

Other real estate owned, which is classified substandard, totaled $18,000 on September 30, 2021 as compared to $1.3 million on December 31, 2020. Other real estate owned on September 30, 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 $9.3 million on September 30, 2021, a $152,000 decrease from the balance on December 31, 2020. The decrease represents normal depreciation of $331,000, offset, in part, by additions totaling $179,000.

Bank owned life insurance increased $53,000 to $3.9 million on September 30, 2021. The change represents an increase in the cash surrender value of the life insurance policies. The policies were purchased in connection with deferred compensation plans utilized by directors and officers of the Company.

Prepaid expenses and other assets decreased $79,000 to $2.0 million on September 30, 2021.

Total deposits increased $17.4 million to $240.8 million on September 30, 2021. The increase in deposits during the period was due to a $15.9 million increase in checking deposits, a $2.4 million increase in money market accounts and a $4.8 million increase in passbook deposits, offset, in part, by a $5.7 million decrease in certificates of deposit accounts. On September 30, 2021, the Bank's core deposits (passbook, checking and money market accounts) comprised $182.1 million, or 75.6% 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 September 30, 2021 as compared to December 31, 2020. Borrowings from the FHLBI on September 30, 2021 had a weighted average rate of 2.89% and a weighted term to maturity of 1.9 years.

The Company's trust preferred subordinated debentures remained unchanged totaling $3.1 million on September 30, 2021. The interest rate payable on the debentures adjusts quarterly to the three month LIBOR plus 1.65% and was 1.77% on September 30, 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 $0.1 million totaling $3.0 million on September 30, 2021 as compared to December 31, 2020.

Total stockholders' equity increased $2.0 million to $24.7 million, or 8.92% of total assets on September 30, 2021, compared to $22.7 million, or 8.64% of total assets, on December 31, 2020. The increase in stockholders' equity was attributable to $3.0 million of net income for the nine month period ended September 30, 2021, a $53,000 increase in paid-in-capital, a $76,000 decrease in the unrealized gain on available for sale securities, net of tax, offset, in part, by a $948,000 increase in treasury stock. The number of common shares outstanding at September 30, 2021 was 923,053, a decrease of 44,659 shares as compared to the number of shares outstanding at December 31, 2020. During the nine month period ended September 30, 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 September 30, 2021 was $26.73. 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 9.68%, 13.15%, 13.15% and 14.40%, respectively, at September 30, 2021 exceeded all regulatory requirements and categorize the Bank as well capitalized under applicable regulations.

Comparison of the Results of Operations for the Quarter Ended September 30, 2021 and September 30, 2020

General. Net income for the quarter ended September 30, 2021 was $952,000, or $1.02 per diluted common share, an increase of $386,000 or 68.3%, compared to $566,000, or $0.58 per diluted common share, for the same period in 2020. The increase in the current quarter net income compared to the prior year quarter was the result of an $805,000 increase in net interest income, a $150,000 decrease in the provision for loan losses, offset, in part, by a $185,000 decrease in non-interest income, a $247,000 increase other non-interest expense and a $137,000 increase in income tax expense.

Interest Income. Total interest income increased $622,000, or 25.7%, to $3.0 million for the quarter ended September 30, 2021, from the prior year quarter as the result of a $19.7 million increase in the average balance of interest-earning assets outstanding and a 64 basis point increase in the weighted average yield on interest-earning assets to 4.66%.

Interest income on loans receivable increased $608,000, to $3.0 million for the quarter ended September 30, 2021, as compared to the prior year quarter as the result of a $6.2 million increase in the average balance of loans outstanding and a 101 basis point increase in the average yield to 5.69%. The yield was enhanced by SBA PPP fees earned of $710,000 for the quarter ended September 30, 2021 as compared to $126,000 for the quarter ended September 30, 2020. Interest income on investment securities increased $3,000 to $3,000 for the quarter ended September 30, 2021, compared to the prior year quarter as the result of a $1.0 million increase in the average outstanding balance and a 136 basis point increase in the average yield to 1.36%. Interest income on mortgage-backed securities decreased $5,000 to $25,000 for the quarter ended September 30, 2021, compared to the prior year quarter as the result of a $1.1 million decrease in the average outstanding balance of mortgage-backed securities and a 0 basis point change in the average yield to 1.78%. Interest income on interest-bearing deposits increased $8,000 to $16,000 for the quarter ended September 30, 2021, compared to the prior year quarter as the result of a $12.9 million increase in the average outstanding balance and a 5 basis point increase in the average yield to 0.15%. Dividend income on FHLBI stock increased $7,000 to $19,000 for the quarter ended September 30, 2021, compared to the prior year quarter due to a $0.7 million increase in the average balance outstanding and a 16 basis point increase in the average yield to 3.64%.

Interest Expense. Total interest expense decreased $183,000, or 39.7%, to $278,000 for the quarter ended September 30, 2021, compared to the prior year quarter as the result of a 34 basis point decrease in the average cost to 0.45%, offset, in part, by a $14.4 million increase in the average balance of interest-bearing liabilities outstanding.

Interest expense on deposits decreased $162,000, or 41.6%, to $227,000 for the quarter ended September 30, 2021, compared to the prior year quarter as the result of a 32 basis point decrease in the average cost of deposits to 0.38%, offset, in part, by a $19.5 million increase in the average balance of deposits outstanding.

Interest expense on borrowings decreased $21,000, or 29.5%, to $51,000 for the quarter ended September 30, 2021, compared to the prior year quarter end as the result of a $5.1 million decrease in the average balance of borrowings outstanding, offset, in part, by a 34 basis point increase in the average cost to 2.50%.

Net Interest Income. As a result of the above changes in interest income and interest expense, net interest income increased $805,000 for the quarter ended September 30, 2021, compared to the prior year quarter ended September 30, 2020. The net interest rate spread increased 98 basis points to 4.21% for the quarter ended September 30, 2021, while the net interest margin, expressed as a percentage of average earning assets, increased 99 basis points to 4.25% for the quarter ended September 30, 2021.

Provision for Loan Losses. The Company recorded $1,000 in provision for loan losses for the quarter ended September 30, 2021, compared to $150,000 for the prior year quarter. The provision for loan losses is a function of the allowance for loan loss methodology used to determine the appropriate level of the allowance for inherent loan losses after adjusting for loan charge-offs and recoveries. Loan losses are charged-off against the allowance when it is believed that the loan balance, or a portion of the loan balance, is no longer realizable by the paying capacity of the borrower based on an evaluation of available cash resources and collateral value. Recoveries of amounts previously charged-off are credited to the allowance. The Company recorded net recoveries of $43,000 for the quarter ended September 30, 2021, compared to net charge-offs of $258,000 for the prior year quarter ended September 30, 2020.

Non-Interest Income. Non-interest income decreased $185,000 to $0.8 million for the quarter ended September 30, 2021, compared to prior year quarter due primarily to a $329,000 decrease in gains on sale of loan income, a $16,000 decrease in other fee income and a $13,000 decrease in benefits from bank-owned life insurance. These decreases were offset, in part, by a $65,000 increase in loan fees and service charges, a $10,000 increase in deposit fee income, a $21,000 increase in rental income, a $35,000 increase in gains on the sale of other real estate owned and a $42,000 increase in other income.

Non-Interest Expense. Non-interest expense increased $247,000 to $2.3 million for the quarter ended September 30, 2021, compared to prior year quarter primarily as the result of a $173,000 increase in compensation expenses, a $104,000 increase in marketing expenses and a $49,000 increase in data processing expenses. These increases were offset, in part, by a $15,000 decrease in occupancy expenses, an $8,000 decrease in professional expenses, a $7,000 decrease in deposit insurance expense, a $5,000 decrease in insurance expense and a $46,000 decrease in other expenses.

Income Taxes. The Company recorded income tax expense of $336,000 for the quarter ended September 30, 2021, resulting in an effective tax rate of 26.1%, compared to income tax expense of $200,000, for an effective income tax rate of 26.1%, for the prior year quarter. The increase in the current quarter income tax expense was impacted by a $523,000 increase in net income before income taxes as compared to the prior year's period.

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

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

Yield Analysis

(Dollars in thousands)

	Three Months Ended September 30, 2021			Three Months Ended September 30, 2020		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Assets:						
Interest-Earning Assets:						
Loans receivable	$208,847	$2,980	5.69%	$202,607	$2,372	4.68%
Investment securities	987	3	1.36	-	-	-
Mortgage-backed securities	5,663	25	1.78	6,812	30	1.78
Interest-bearing deposits	42,603	16	0.15	29,734	7	0.10
FHLBI stock	2,123	19	3.64	1,372	12	3.49
Total interest-earning assets	260,223	3,043	4.66	240,525	2,421	4.02
Non interest-earning assets	15,674			16,670		
Total assets	275,897			257,195		
Liabilities and Stockholders' Equity:						
Interest-Bearing Liabilities:						
Passbook accounts	34,749	4	0.05%	27,702	4	0.05%
Demand accounts	146,229	85	0.23	129,660	102	0.31
Certificate accounts	58,087	138	0.94	62,149	283	1.81
Total deposits	239,065	227	0.38	219,511	389	0.70
Borrowings	8,030	51	2.50	13,173	72	2.16
Total interest-bearing liabilities	247,095	278	0.45	232,684	461	0.79
Non-interest-bearing liabilities	4,303			3,618		
Total liabilities	251,398			236,302		
Stockholders' equity	24,499			20,893		
Total liabilities and stockholders' equity	$275,897			$257,195		
Net interest income / interest rate spread		$2,765	4.21%		$1,960	3.23%
Net interest margin			4.25%			3.26%

Comparison of the Results of Operations for the Nine Months Ended September 30, 2021 and September 30, 2020

General. Net income for the nine months ended September 30, 2021 was $2,994,000, or $3.13 per diluted common share, an increase of $1,643,000 or 121.7%, compared to $1,351,000, or $1.39 per diluted common share, for the same period in 2020. The increase in the current nine month period net income compared to the prior year nine month period was the result of a $1.6 million increase in net interest income, a $472,000 decrease in the provision for loan losses and a $838,000 increase in non-interest income, offset, in part, by a $717,000 increase in other non-interest expense and a $575,000 increase in income tax expense.

Interest Income. Total interest income increased $1.1 million, or 15.0%, to $8.2 million for the nine months ended September 30, 2021, from the prior year nine month period as the result of a $26.7 million increase in the average balance of interest-earning assets outstanding and a 26 basis point increase in the weighted average yield on interest-earning assets to 4.27%.

Interest income on loans receivable increased $1.1 million, to $8.0 million for the nine months ended September 30, 2021, as compared to the prior year nine month period as the result of a $10.5 million increase in the average balance of loans outstanding and a 65 basis point increase in the average yield to 5.13%. The yield was enhanced by SBA PPP fees earned of $1.3 million for the nine months ended September 30, 2021 as compared to $131,000 for the prior year nine month period ended September 30, 2020. Interest income on investment securities increased $4,000 to $4,000 for the nine months ended September 30, 2021, compared to the prior year nine month period as the result of a $0.4 million increase in the average outstanding balance and a 135 basis point increase in the average yield to 1.35%. Interest income on mortgage-backed securities decreased $40,000 to $74,000 for the nine months ended September 30, 2021, compared to the prior year nine month period as the result of a $2.2 million decrease in the average outstanding balance of mortgage-backed securities and a 17 basis point decrease in the average yield to 1.82%. Interest income on interest-bearing deposits decreased $30,000 to $35,000 for the nine months ended September 30, 2021, compared to the prior year nine month period as the result of a 28 basis point decrease in the average yield to 0.12%, offset, in part, by a $17.7 million increase in the average outstanding balance. Dividend income on FHLBI stock increased $6,000 to $40,000 for the nine months ended September 30, 2021, compared to the prior year nine month period due to a $0.4 million increase in the average balance outstanding, offset, in part, by a 23 basis point decrease in the average yield to 3.09%

Interest Expense. Total interest expense decreased $560,000, or 35.6%, to $1.0 million for the nine months ended September 30, 2021, compared to the prior year nine month period as the result of a 39 basis point decrease in the average cost to 0.56%, offset, in part, by a $22.1 million increase in the average balance of interest-bearing liabilities outstanding.

Interest expense on deposits decreased $516,000, or 38.3%, to $0.8 million for the nine months ended September 30, 2021, compared to the prior year nine month period as the result of a 38 basis point decrease in the average cost of deposits to 0.48%, offset, in part, by a $24.1 million increase in the average balance of deposits outstanding.

Interest expense on borrowings decreased $44,000, or 19.3%, to $183,000 for the nine months ended September 30, 2021, compared to the prior year nine month period as the result of a $2.0 million decrease in the average balance of borrowings outstanding and a 10 basis point decrease in the average cost to 2.19%.

Net Interest Income. As a result of the above changes in interest income and interest expense, net interest income increased $1.6 million for the nine months ended September 30, 2021, compared to the prior year nine month period ended September 30, 2020. The net interest rate spread increased 65 basis points to 3.71% for the nine months ended September 30, 2021, while the net interest margin, expressed as a percentage of average earning assets, increased 51 basis points to 3.73% for the nine months ended September 30, 2021.

Provision for Loan Losses. The Company recorded $9,000 in provision for loan losses for the nine months ended September 30, 2021, compared to $481,000 for the prior year nine month period. The provision for loan losses is a function of the allowance for loan loss methodology used to determine the appropriate level of the allowance for inherent loan losses after adjusting for loan charge-offs and recoveries. Loan losses are charged-off against the allowance when it is believed that the loan balance, or a portion of the loan balance, is no longer realizable by the paying capacity of the borrower based on an evaluation of available cash resources and collateral value. Recoveries of amounts previously charged-off are credited to the allowance. The Company recorded net recoveries of $69,000 for the nine months ended September 30, 2021, compared to net charge-offs of $224,000 for the prior year nine month period ended September 30, 2020.

Non-Interest Income. Non-interest income increased $0.8 million to $3.2 million for the nine months ended September 30, 2021, compared to prior year nine month period due primarily to a $150,000 increase in loan fees and service charges, a $22,000 increase in deposit fee income, a $56,000 increase in rental income, a $233,000 increase in gains on the sale of other real estate owned, a $375,000 increase in gains on sale of loan income and a $30,000 increase in other income. These increases were offset, in part, by a $13,000 decrease in other fee income and a $13,000 decrease in benefits from bank-owned life insurance.

Non-Interest Expense. Non-interest expense increased $717,000 to $6.3 million for the nine months ended September 30, 2021, compared to prior year nine month period primarily as the result of a $433,000 increase in compensation expenses, a $185,000 increase in marketing expenses, a $143,000 increase in data processing expenses and a $57,000 increase in professional expenses. These increases were offset, in part, by a $42,000 decrease in occupancy expenses, a $23,000 decrease in FDIC insurance premiums, a $13,000 decrease in insurance expenses and a $23,000 increase in other expenses.

Income Taxes. The Company recorded income tax expense of $1.0 million for the nine months ended September 30, 2021, resulting in an effective tax rate of 25.8%, compared to income tax expense of $0.5 million, for an effective income tax rate of 25.7%, for the prior year nine month period. The increase in the current nine months income tax expense was impacted by a $2.2 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

(Dollars in thousands)

	Nine Months Ended September 30, 2021			Nine Months Ended September 30, 2020		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Assets:						
Interest-Earning Assets:						
Loans receivable	$208,361	$8,009	5.13%	$197,877	$6,883	4.48%
Investment securities	381	4	1.35	-	-	-
Mortgage-backed securities	5,386	74	1.82	7,597	114	1.99
Interest-bearing deposits	39,426	34	0.12	21,768	65	0.40
FHLBI stock	1,756	40	3.09	1,372	34	3.32
Total interest-earning assets	255,310	8,161	4.27	228,614	7,096	4.01
Non interest-earning assets	16,329			16,652		
Total assets	271,639			245,266		
Liabilities and Stockholders' Equity:						
Interest-Bearing Liabilities:						
Passbook accounts	32,440	12	0.05%	27,410	10	0.05%
Demand accounts	138,313	240	0.23	117,378	396	0.45
Certificate accounts	61,321	579	1.27	63,158	941	1.98
Total deposits	232,074	831	0.48	207,946	1,347	0.86
Borrowings	11,197	183	2.19	13,183	227	2.29
Total interest-bearing liabilities	243,271	1,014	0.56	221,129	1,574	0.95
Non-interest-bearing liabilities	4,535			3,783		
Total liabilities	247,806			224,912		
Stockholders' equity	23,833			20,354		
Total liabilities and stockholders' equity	$271,639			$245,266		
Net interest income / interest rate spread		$7,147	3.71%		$5,522	3.06%
Net interest margin			3.73%			3.22%

Capital Standards.

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

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

This final rule became effective for the Bank on January 1, 2016 and continues to maintain the exemption of consolidated capital requirements for bank holding companies, such as the Company.

At September 30, 2021, the Bank was in compliance with all of its capital requirements as follows:

Well Capitalized Capital Requirement:	Amount	Percent of Average Assets
Tier 1 Leverage Ratio:		
Average Total Assets	$ 275,830,000	
Common Equity Tier 1 Capital	$ 26,698,000	9.68%
Common Equity Tier 1 Capital Requirement	13,791,500	5.00%
Excess	$ 12,906,500	4.68%
Risk-Based Common Equity Tier 1 Capital Ratio:		
Risk-Weighted Assets	$ 203,082,000	
Common Equity Tier 1 Capital	$ 26,698,000	13.15%
Common Equity Tier 1 Capital Requirement	13,200,330	6.50%
Excess	$ 13,497,670	6.65%
Risk-Based Tier 1 Capital Ratio:		
Risk-Weighted Assets	$ 203,082,000	
Common Equity Tier 1 Capital	$ 26,698,000	13.15%
Common Equity Tier 1 Capital Requirement	16,246,560	8.00%
Excess	$ 10,451,440	5.15%
Risk-Based Total Capital Ratio:		
Risk-Weighted Assets	$ 203,082,000	
Common Equity Tier 1 Capital	$ 26,698,000	
Includable Allowance for Loan Losses	2,538,000	
Total Tier 2 Risk-Based Capital	$ 29,236,000	14.40%
Total Risk-Based Capital Requirement	20,308,200	10.00%
Excess	$ 8,927,800	4.40%
Capital Conservation Buffer - Actual		6.40%
Capital Conservation Buffer - Required		2.50%

Legal Proceedings. On September 30, 2021, we were not involved in any legal proceedings or lawsuits that are not routine and incidental to our business.