UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
☒ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended September 30, 2021 or

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the transition period from ________ to ________

Commission File Number: 0-26128

Finward Bancorp
(Exact name of registrant as specified in its charter)

Indiana
(State or other jurisdiction of incorporation or organization)

35-1927981
(I.R.S. Employer Identification Number)

9204 Columbia Avenue
Munster, Indiana
(Address of principal executive offices)

46321
(ZIP code)

Registrant's telephone number, including area code: (219) 836-4400

N/A
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, no par value	FNWD	The NASDAQ Stock Market, LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company”, and “emerging growth company” in Rule 12b-2 of the Exchange Act:
Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒
Smaller Reporting Company ☒ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

There were 3,479,139 shares of the registrant’s Common Stock, without par value, outstanding at November 9, 2021.

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Finward Bancorp
Condensed Consolidated Balance Sheets

(Dollars in thousands)	September 30, 2021 (unaudited)	December 31, 2020
ASSETS		
Cash and non-interest bearing deposits in other financial institutions	$ 17,715	$ 14,014
Interest bearing deposits in other financial institutions	12,132	5,908
Federal funds sold	1,918	-
Total cash and cash equivalents	31,765	19,922
Certificates of deposit in other financial institutions	977	1,897
Securities available-for-sale	531,010	410,669
Loans held-for-sale	3,868	11,329
Loans receivable	956,352	965,146
Less: allowance for loan losses	(13,774)	(12,458)
Net loans receivable	942,578	952,688
Federal Home Loan Bank stock	3,247	3,918
Accrued interest receivable	5,259	4,713
Premises and equipment	29,980	30,785
Foreclosed real estate	81	538
Cash value of bank owned life insurance	31,262	30,725
Goodwill	11,109	11,109
Other intangible assets	3,374	4,119
Other assets	15,414	13,880
Total assets	$ 1,609,924	$ 1,496,292
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 287,376	$ 241,620
Interest bearing	1,118,824	1,060,719
Total	1,406,200	1,302,339
Repurchase agreements	23,844	13,711
Borrowed funds	-	6,149
Accrued expenses and other liabilities	27,311	22,404
Total liabilities	1,457,355	1,344,603
Commitments and contingent liabilties		
Stockholders' Equity:		
Preferred stock, no par or stated value; 10,000,000 shares authorized, none outstanding	-	-
Common stock, no par or stated value; 10,000,000 shares authorized; shares issued and outstanding: September 30, 2021 - 3,479,139 December 31, 2020 - 3,462,916	-	-
Additional paid-in capital	30,284	29,987
Accumulated other comprehensive income	2,608	10,441
Retained earnings	119,677	111,261
Total stockholders' equity	152,569	151,689
Total liabilities and stockholders' equity	$ 1,609,924	$ 1,496,292

See accompanying notes to condensed consolidated financial statements.

Finward Bancorp
Condensed Consolidated Statements of Income
(unaudited)

(Dollars in thousands) *(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:				
Loans receivable				
Real estate loans	$ 8,177	$ 8,560	$ 24,627	$ 27,222
Commercial loans	1,737	2,427	5,728	5,746
Consumer loans	356	276	936	621
Total loan interest	10,270	11,263	31,291	33,589
Securities	2,378	1,534	6,483	4,803
Other interest earning assets	18	39	54	218
Total interest income	12,666	12,836	37,828	38,610
Interest expense:				
Deposits	452	1,050	1,652	4,494
Repurchase agreements	13	15	35	72
Borrowed funds	1	83	23	270
Total interest expense	466	1,148	1,710	4,836
Net interest income	12,200	11,688	36,118	33,774
Provision for loan losses	139	849	1,293	1,871
Net interest income after provision for loan losses	12,061	10,839	34,825	31,903
Noninterest income:				
Gain on sale of loans held-for-sale, net	$ 1,229	$ 2,420	$ 4,394	$ 6,037
Fees and service charges	1,473	1,473	4,010	3,673
Wealth management operations	604	537	1,787	1,605
Gain on sale of securities, net	590	197	1,276	1,374
Increase in cash value of bank owned life insurance	180	177	537	534
Gain on sale of foreclosed real estate, net	-	24	27	127
Other	70	27	108	97
Total noninterest income	$ 4,146	$ 4,855	$ 12,139	$ 13,447
Noninterest expense:				
Compensation and benefits	$ 6,042	$ 5,517	$ 17,624	$ 16,447
Occupancy and equipment	1,380	1,150	4,076	3,854
Data processing	872	583	1,997	1,671
Marketing	334	183	728	571
Federal deposit insurance premiums	236	209	620	564
Other	3,537	2,393	8,859	7,033
Total noninterest expense	$ 12,401	$ 10,035	$ 33,904	$ 30,140
Income before income tax expenses	3,806	5,659	13,060	15,210
Income tax expenses	268	972	1,408	2,559
Net income	$ 3,538	$ 4,687	$ 11,652	$ 12,651
Earnings per common share:				
Basic	$ 1.02	$ 1.35	$ 3.35	$ 3.65
Diluted	$ 1.02	$ 1.35	$ 3.35	$ 3.65
Dividends declared per common share	$ 0.31	$ 0.31	$ 0.93	$ 0.93

See accompanying notes to condensed consolidated financial statements.

Finward Bancorp
Condensed Consolidated Statements of Comprehensive Income
(unaudited)

(Dollars in thousands)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Net income	$ 3,538	$ 4,687	$ 11,652	$ 12,651
Net change in net unrealized gains and losses on securities available-for-sale:				
Unrealized (losses)/gains arising during the period	(6,501)	(25)	(8,638)	7,294
Less: reclassification adjustment for gains included in net income	(590)	(197)	(1,276)	(1,374)
Net securities (loss)/gain during the period	(7,091)	(222)	(9,914)	5,920
Tax effect	1,490	46	2,081	(1,243)
Net of tax amount	(5,601)	(176)	(7,833)	4,677
Comprehensive (loss)/income, net of tax	$ (2,063)	$ 4,511	$ 3,819	$ 17,328

See accompanying notes to condensed consolidated financial statements.

Finward Bancorp
Consolidated Statements of Changes in Stockholders' Equity
(unaudited)

(Dollars in thousands, except per share data)	Three Months Ended *Common Stock*	*Additional Paid-in Capital*	*Accumulated Other Comprehensive (Loss)/Income*	*Retained Earnings*	*Total Equity*
Balance at June 30, 2020	$ -	$ 29,774	$ 9,114	$ 105,441	$ 144,329
Comprehensive income:					
Net income	-	-	-	4,687	4,687
Other comprehensive loss	-	-	(176)	-	(176)
Comprehensive income					4,511
Stock-based compensation expense	-	107	-	-	107
Cash dividends, $0.31 per share	-	-	-	(1,074)	(1,074)
Balance at September 30, 2020	$ -	$ 29,881	$ 8,938	$ 109,054	$ 147,873
Balance at June 30, 2021	$ -	$ 30,141	$ 8,209	$ 117,219	$ 155,569
Comprehensive income:					
Net income	-	-	-	3,538	3,538
Other comprehensive loss	-	-	(5,601)	-	(5,601)
Comprehensive income					(2,063)
Stock-based compensation expense	-	143	-	-	143
Cash dividends, $0.31 per share	-	-	-	(1,080)	(1,080)
Balance at September 30, 2021	$ -	$ 30,284	$ 2,608	$ 119,677	$ 152,569

(Dollars in thousands, except per share data)	Nine Months Ended *Common Stock*	*Additional Paid-in Capital*	*Accumulated Other Comprehensive (Loss)/Income*	*Retained Earnings*	*Total Equity*
Balance at January 1, 2020	$ -	$ 29,657	$ 4,261	$ 99,624	$ 133,542
Comprehensive income:					
Net income	-	-	-	12,651	12,651
Other comprehensive income	-	-	4,677	-	4,677
Comprehensive income					17,328
Net surrender value of 1,245 restricted stock awards	-	(85)	-	-	(85)
Stock-based compensation expense	-	309	-	-	309
Cash dividends, $0.93 per share	-	-	-	(3,221)	(3,221)
Balance at September 30, 2020	$ -	$ 29,881	$ 8,938	$ 109,054	$ 147,873
Balance at January 1, 2021	$ -	$ 29,987	$ 10,441	$ 111,261	$ 151,689
Comprehensive income:					
Net income	-	-	-	11,652	11,652
Other comprehensive loss	-	-	(7,833)	-	(7,833)
Comprehensive income					3,819
Net surrender value of 1,904 restricted stock awards	-	(131)	-	-	(131)
Stock-based compensation expense	-	428	-	-	428
Cash dividends, $0.93 per share	-	-	-	(3,236)	(3,236)
Balance at September 30, 2021	$ -	$ 30,284	$ 2,608	$ 119,677	$ 152,569

See accompanying notes to consolidated financial statements.

Finward Bancorp
Condensed Consolidated Statements of Cash Flows
(unaudited)

(Dollars in thousands)	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 11,652	$ 12,651
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Origination of loans for sale	(120,101)	(171,151)
Sale of loans originated for sale	131,477	177,556
Depreciation and amortization, net of accretion	3,109	3,178
Amortization of mortgage servicing rights	180	63
Stock based compensation expense	428	309
Gain on sale of securities, net	(1,276)	(1,374)
Gain on sale of loans held-for-sale, net	(4,546)	(6,037)
Loss/(gain) on derivatives	152	(308)
Gain on cash value of bank owned life insurance	(537)	(534)
Gain on sale of foreclosed real estate, net	(27)	(127)
Provision for loan losses	1,293	1,871
Net change in:		
Interest receivable	(546)	(685)
Other assets	1,591	(1,682)
Accrued expenses and other liabilities	(6,290)	5,526
Net cash - operating activities	16,559	19,256
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of certificates of deposits in other financial institutions	920	269
Proceeds from maturities and pay downs of securities available-for-sale	43,488	49,311
Proceeds from sales of securities available-for-sale	28,565	39,242
Purchase of securities available-for-sale	(191,130)	(129,503)
Loan participations purchased	-	(8,267)
Net change in loans receivable	20,148	(60,386)
Proceeds (purchase) of Federal Home Loan Bank Stock	671	(6)
Purchase of loans receivable	(11,331)	-
Purchase of premises and equipment, net	(1,019)	(2,088)
Proceeds from sale of foreclosed real estate, net	484	731
Net cash - investing activities	(109,204)	(110,697)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in deposits	103,861	126,286
Repayment of FHLB advances	(6,000)	(2,000)
Change in other borrowed funds	9,984	7,646
Net surrender value of restricted stock awards	(131)	(85)
Dividends paid	(3,226)	(3,217)
Net cash - financing activities	104,488	128,630
Net change in cash and cash equivalents	11,843	37,189
Cash and cash equivalents at beginning of period	19,922	47,258
Cash and cash equivalents at end of period	$ 31,765	$ 84,447
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 1,744	$ 4,953
Income taxes	2,185	5,000
Noncash activities:		
Transfers from loans to foreclosed real estate	$ -	$ 23
Dividends declared not paid	1,080	1,074
Securities purchased not settled	11,187	-

See accompanying notes to condensed consolidated financial statements.

Note 1 - Basis of Presentation

Organization and Description of Business

The consolidated financial statements include the accounts of Finward Bancorp (the “Bancorp” or “Finward”), its wholly-owned subsidiaries NWIN Risk Management, Inc. (a captive insurance subsidiary) and Peoples Bank (the “Bank”), and the Bank’s wholly-owned subsidiaries, Peoples Service Corporation, NWIN, LLC, NWIN Funding, Incorporated, and Columbia Development Company, LLC. The Bancorp’s business activities include being a holding company for the Bank as well as a holding company for NWIN Risk Management, Inc. The Bancorp’s earnings are primarily dependent upon the earnings of the Bank. The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include all disclosures required by U.S. generally accepted accounting principles for complete presentation of consolidated financial statements. In the opinion of management, the consolidated financial statements contain all adjustments necessary to present fairly the consolidated balance sheets of the Bancorp as of September 30, 2021, and December 31, 2020, and the consolidated statements of income, comprehensive income, and changes in stockholders’ equity for the three and nine months ended September 30, 2021, and 2020, and consolidated statements of cash flows for the nine months ended September 30, 2021, and 2020. The income reported for the nine month period ended September 30, 2021, is not necessarily indicative of the results to be expected for the full year.

On May 13, 2021, the Bancorp filed Articles of Amendment to its Articles of Incorporation with the Secretary of State of the State of Indiana to change the name of the company from “NorthWest Indiana Bancorp” to “Finward Bancorp.” The name change was approved by the Bancorp’s shareholders on March 3, 2021 and became effective on May 24, 2021.

The Notes to the Consolidated Financial Statements appearing in Finward Bancorp’s Annual Report on Form 10-K (2020 Annual Report), which include descriptions of significant accounting policies, should be read in conjunction with these interim financial statements. The Consolidated Balance Sheet at December 31, 2020 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. Certain amounts in the prior period consolidated financial statements have been reclassified to conform to the current period presentation.

Revision of Previously Issued Financial Statements

We have revised amounts reported in previously issued financial statements for the periods presented in this Quarterly Report on Form 10-Q related to immaterial errors discovered during the second quarter of 2021. The errors relate to certain deferred costs booked related to our manufactured home loan product, which resulted in increased assets and understatements of expense in prior periods.

We evaluated the aggregate effects of the errors to our previously issued financial statements in accordance with SEC Staff Accounting Bulletins No. 99 and No. 108 and, based upon quantitative and qualitative factors, determined that the errors were not material to the previously issued financial statements and disclosures included in our Annual Reports on Form 10-K for the years ended December 31, 2020 and 2019, or for any quarterly periods included therein or through our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2021.

The following tables present the revisions to the line items of our previously issued financial statements to reflect the correction of the errors:

Consolidated Balance Sheet

As of December 31, 2020	**As Reported**	**Adjustment**	**As Revised**
Loans receivable	$ 966,578	$ (1,432)	$ 965,146
Net loans receivable	954,120	(1,432)	952,688
Other assets	13,681	199	13,880
Total assets	1,497,525	(1,233)	1,496,292
Retained earnings	112,494	(1,233)	111,261
Total shareholders' equity	152,922	(1,233)	151,689
Total liabilities and stockholders' equity	1,497,525	(1,233)	1,496,292

Consolidated Statement of Income

Three months ended September 30, 2020	**As Reported**	**Adjustment**	**As Revised**
Compensation and benefits	$ 5,263	$ 254	$ 5,517
Total noninterest expense	9,781	254	10,035
Income before income tax expense	5,913	(254)	5,659
Income tax expenses	1,010	(38)	972
Net income	4,903	(216)	4,687
Earnings per common share:			
Basic	1.42	(0.07)	1.35
Diluted	1.42	(0.07)	1.35

Nine months ended September 30, 2020	**As Reported**	**Adjustment**	**As Revised**
Compensation and benefits	$ 15,851	$ 596	$ 16,447
Total noninterest expense	29,544	596	30,140
Income before income tax expense	15,806	(596)	15,210
Income tax expenses	2,648	(89)	2,559
Net income	13,158	(507)	12,651
Earnings per common share:			
Basic	3.80	(0.15)	3.65
Diluted	3.80	(0.15)	3.65

Consolidated Statements of Comprehensive Income

Three months ended September 30, 2020	**As Reported**	**Adjustment**	**As Revised**
Net income	$ 4,903	$ (216)	$ 4,687
Comprehensive income, net of tax	4,727	(216)	4,511

Nine months ended September 30, 2020	**As Reported**	**Adjustment**	**As Revised**
Net income	$ 13,158	$ (507)	$ 12,651
Comprehensive income, net of tax	17,835	(507)	17,328

Consolidated Statements of Changes in Stockholders' Equity

Balance at January 1, 2020	As Reported	Adjustment	As Revised
Retained earnings	$ 100,185	$ (561)	$ 99,624
Total equity	134,103	(561)	133,542
For the nine months ending September 30, 2020			
Net income	13,158	(507)	12,651
Retained earnings	110,122	(1,068)	109,054
Total equity	148,941	(1,068)	147,873
For the quarter ending June 30, 2020			
Retained earnings	106,293	(852)	105,441
Total equity	145,181	(852)	144,329
For the quarter ending September 30, 2020			
Net income	4,903	(216)	4,687
Retained earnings	110,122	(1,068)	109,054
Total equity	148,941	(1,068)	147,873
Balance at January 1, 2021			
Retained earnings	112,494	(1,233)	111,261
Total equity	152,922	(1,233)	151,689

Consolidated Statements of Cash Flows

Nine months ended September 30, 2020	As Reported	Adjustment	As Revised
Net income	$ 13,158	$ (507)	$ 12,651
Net change in other assets	(1,593)	(89)	(1,682)
Net cash - operating activities	19,852	(596)	19,256
Net change in loan	(60,982)	596	(60,386)
Net cash - investing activities	(111,293)	596	(110,697)

Note 2 - Use of Estimates

Preparing financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period, as well as the disclosures provided. Actual results could differ from those estimates. Estimates associated with the allowance for loan losses, fair values of foreclosed real estate, loan servicing rights, investment securities, deferred tax assets, goodwill, and the status of contingencies are particularly susceptible to material change in the near term.

Note 3 - Securities

The estimated fair value of available-for-sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows:

(Dollars in thousands)

	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2021				
U.S. government sponsored entities	10,883	8	(130)	10,761
U.S. treasury securities	401	-	-	401
Collateralized mortgage obligations and residential mortgage-backed securities	199,749	1,559	(2,823)	198,485
Municipal securities	314,511	8,496	(2,655)	320,352
Collateralized debt obligations	2,173	-	(1,162)	1,011
Total securities available-for-sale	$ 527,717	$ 10,063	$ (6,770)	$ 531,010

(Dollars in thousands)

	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2020				
Money market fund	$ 52,941	$ -	$ -	$ 52,941
U.S. government sponsored entities	7,881	3	(24)	7,860
Collateralized mortgage obligations and residential mortgage-backed securities	151,355	3,417	(36)	154,736
Municipal securities	183,103	11,102	(2)	194,203
Collateralized debt obligations	2,182	-	(1,253)	929
Total securities available-for-sale	$ 397,462	$ 14,522	$ (1,315)	$ 410,669

The estimated fair value of available-for-sale debt securities at September 30, 2021, by contractual maturity, were as follows. Securities not due at a single maturity date, primarily collateralized mortgage obligations and residential mortgage-backed securities, are shown separately.

	(Dollars in thousands) Available-for-sale	
September 30, 2021	Estimated Fair Value	Tax-Equivalent Yield (%)
Due in one year or less	$ 401	0.63
Due from one to five years	3,817	4.39
Due from five to ten years	28,638	2.63
Due over ten years	299,669	2.91
Collateralized mortgage obligations and residential mortgage-backed securities	198,485	1.62
Total	$ 531,010	2.42

Sales of available-for-sale securities were as follows for the three months ended:

	(Dollars in thousands) September 30, 2021	September 30, 2020
Proceeds	$ 9,275	$ 4,144
Gross gains	591	197
Gross losses	(1)	-

Sales of available-for-sale securities were as follows for the nine months ended:

	(Dollars in thousands) September 30, 2021	September 30, 2020
Proceeds	$ 28,565	$ 39,242
Gross gains	1,297	1,433
Gross losses	(21)	(59)

Accumulated other comprehensive income/(loss) balances, net of tax, related to available-for-sale securities, were as follows:

	(Dollars in thousands) Unrealized gain/(loss)
Ending balance, December 31, 2020	$ 10,441
Current period change	(7,833)
Ending balance, September 30, 2021	$ 2,608

Securities with market values of approximately $ 43.3 million and $52.4 million were pledged as of September 30, 2021 and December 31, 2020, respectively, as collateral for repurchase agreements, public funds, and for other purposes as permitted or required by law.

Securities with gross unrealized losses at September 30, 2021, and December 31, 2020 not recognized in income are as follows:

	Less than 12 months		(Dollars in thousands) 12 months or longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
September 30, 2021						
U.S. government sponsored entities	$ 8,753	$ (130)	$ -	$ -	$ 8,753	$ (130)
Collateralized mortgage obligations and residential mortgage-backed securities	133,551	(2,693)	2,740	(130)	136,291	(2,823)
Municipal securities	133,340	(2,655)	-	-	133,340	(2,655)
Collateralized debt obligations	-	-	1,011	(1,162)	1,011	(1,162)
Total temporarily impaired	$ 275,644	$ (5,478)	$ 3,751	$ (1,292)	$ 279,395	$ (6,770)
Number of securities		211		3		214

	Less than 12 months		(Dollars in thousands) 12 months or longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
December 31, 2020						
U.S. government sponsored entities	$ 4,975	$ (24)	$ -	$ -	$ 4,975	$ (24)
Collateralized mortgage obligations and residential mortgage-backed securities	11,953	(36)	-	-	11,953	(36)
Municipal securities	1,864	(2)	-	-	1,864	(2)
Collateralized debt obligations	-	-	929	(1,253)	929	(1,253)
Total temporarily impaired	$ 18,792	$ (62)	$ 929	$ (1,253)	$ 19,721	$ (1,315)
Number of securities		8		2		10

Unrealized losses on securities have not been recognized into income because the securities are of high credit quality or have undisrupted cash flows. Management has the intent and ability to hold those securities for the foreseeable future, and the decline in fair value is largely due to changes in interest rates and volatility in securities markets. The fair values are expected to recover as the securities approach maturity.

Note 4 - Loans Receivable

The Bancorp's current lending programs are described below:

Residential Real Estate. The primary lending activity of the Bancorp has been the granting of conventional mortgage loans to enable borrowers to purchase existing homes, refinance existing homes, or construct new homes. Conventional loans are made up to a maximum of 97% of the purchase price or appraised value, whichever is less. For loans made in excess of 80% of value, private mortgage insurance is generally required in an amount sufficient to reduce the Bancorp's exposure to 80% or less of the appraised value of the property. Loans insured by private mortgage insurance companies can be made for up to 97% of value. Loans closed with over 20% of equity do not require private mortgage insurance because of the borrower's level of equity investment.

Fixed rate loans currently originated generally conform to Freddie Mac guidelines for loans purchased under the one-to-four family program. Loan interest rates are determined based on secondary market yield requirements and local market conditions. Fixed rate mortgage loans with contractual maturities generally exceeding fifteen years and greater may be sold and/or classified as held for sale to control exposure to interest rate risk.

The 15 year mortgage loan program has gained wide acceptance in the Bancorp's primary market area. As a result of the shortened maturity of these loans, this product has been priced below the comparable 20 and 30 year loan offerings. Mortgage applicants for 15 year loans tend to have a larger than normal down payment; this, coupled with the larger principal and interest payment amount, has caused the 15 year mortgage loan portfolio to consist, to a significant extent, of second time home buyers whose underwriting qualifications tend to be above average.

The Bancorp's Adjustable Rate Mortgage Loans ("ARMs") include offerings that reprice annually or are "Mini-Fixed." The "Mini-Fixed" mortgage reprices annually after a one, three, five, seven or ten year period. The ability of the Bancorp to successfully market ARM's depends upon loan demand, prevailing interest rates, volatility of interest rates, public acceptance of such loans and terms offered by competitors.

Home Equity Line of Credit. The Bancorp offers a fixed and variable rate revolving line of credit secured by the equity in the borrower's home. Both products offer an interest only option where the borrower pays interest only on the outstanding balance each month. Equity lines will typically require a second mortgage appraisal and a second mortgage lender's title insurance policy. Loans are generally made up to a maximum of 89% of the appraised value of the property less any outstanding liens.

Fixed term home improvement and equity loans are made up to a maximum of 85% of the appraised value of the improved property, less any outstanding liens. These loans are offered on both a fixed and variable rate basis with a maximum term of 240 months. All home equity loans are made on a direct basis to borrowers.

Commercial Real Estate and Multifamily Loans. Commercial real estate loans are typically made to a maximum of 80% of the appraised value. Such loans are generally made on an adjustable rate basis. These loans are typically made for terms of 15 to 20 years. Loans with an amortizing term exceeding 15 years normally have a balloon feature calling for a full repayment within seven to ten years from the date of the loan. The balloon feature affords the Bancorp the opportunity to restructure the loan if economic conditions so warrant. Commercial real estate loans include loans secured by commercial rental units, apartments, condominium developments, small shopping centers, owner occupied commercial/industrial properties, hospitality units and other retail and commercial developments.

While commercial real estate lending is generally considered to involve a higher degree of risk than single-family residential lending due to the concentration of principal in a limited number of loans and the effects of general economic conditions on real estate developers and managers, the Bancorp has endeavored to reduce this risk in several ways. In originating commercial real estate loans, the Bancorp considers the feasibility of the project, the financial strength of the borrowers and lessees, the managerial ability of the borrowers, the location of the project and the economic environment. Management evaluates the debt coverage ratio and analyzes the reliability of cash flows, as well as the quality of earnings. All such loans are made in accordance with well-defined underwriting standards and are generally supported by personal guarantees, which represent a secondary source of repayment.

Loans for the construction of commercial properties are generally located within an area permitting physical inspection and regular review of business records. Projects financed outside of the Bancorp's primary lending area generally involve borrowers and guarantors who are or were previous customers of the Bancorp or projects that are underwritten according to the Bank's underwriting standards.

Construction and Land Development. Construction loans on residential properties are made primarily to individuals and contractors who are under contract with individual purchasers. These loans are personally guaranteed by the borrower. The maximum loan-to-value ratio is 89% of either the current appraised value or the cost of construction, whichever is less. Residential construction loans are typically made for periods of six months to one year.

Loans are also made for the construction of commercial properties. All such loans are made in accordance with well-defined underwriting standards. Generally if the loans are not owner occupied, these types of loans require proof of intent to lease and a confirmed end-loan takeout. In general, loans made do not exceed 80% of the appraised value of the property. Commercial construction loans are typically made for periods not to exceed two years or date of occupancy, whichever is less.

Commercial Business and Farmland Loans. Although the Bancorp's priority in extending various types of commercial business loans changes from time to time, the basic considerations in determining the makeup of the commercial business loan portfolio are economic factors, regulatory requirements and money market conditions. The Bancorp seeks commercial loan relationships from the local business community and from its present customers. Conservative lending policies based upon sound credit analysis governs the extension of commercial credit. The following loans, although not inclusive, are considered preferable for the Bancorp's commercial loan portfolio: loans collateralized by liquid assets; loans secured by general use machinery and equipment; secured short-term working capital loans to established businesses secured by business assets; short-term loans with established sources of repayment and secured by sufficient equity and real estate; and unsecured loans to customers whose character and capacity to repay are firmly established.

Consumer Loans. The Bancorp offers consumer loans to individuals for personal, household or family purposes. Consumer loans are either secured by adequate collateral, or unsecured. Unsecured loans are based on the strength of the applicant's financial condition. All borrowers must meet current underwriting standards. The consumer loan program includes both fixed and variable rate products.

Manufactured Homes. The Bancorp purchases fixed rate closed loans from a third party that are subject to Bancorp's underwriting requirements and secured by manufactured homes. The maturity date on these loans can range up to 25 years. In addition, these loans have partial recourse secured by a reserve account held at the Bancorp.

Government Loans. The Bancorp is permitted to purchase non-rated municipal securities, tax anticipation notes and warrants within the local market area.

Loans receivable are summarized below:

(Dollars in thousands)

	September 30, 2021	December 31, 2020
Loans secured by real estate:		
Residential real estate	$ 268,798	$ 286,048
Home equity	35,652	39,233
Commercial real estate	309,905	298,257
Construction and land development	110,289	93,562
Multifamily	56,869	50,571
Farmland	205	215
Total loans secured by real estate	781,718	767,886
Commercial business	125,922	158,140
Consumer	650	1,025
Manufactured homes	32,857	24,232
Government	9,841	10,142
Subtotal	950,988	961,425
Less:		
Net deferred loan origination fees	5,579	3,871
Undisbursed loan funds	(215)	(150)
Loans receivable	$ 956,352	$ 965,146

(Dollars in thousands)	*Beginning Balance*	*Charge-offs*	*Recoveries*	*Provisions*	*Ending Balance*

The Bancorp's activity in the allowance for loan losses, by loan segment, is summarized below for the three months ended September 30, 2021:

Allowance for loan losses:					
Residential real estate	$ 2,294	$ (28)	$ 21	$ 188	$ 2,475
Home equity	371	-	-	3	374
Commercial real estate	5,939	-	-	413	6,352
Construction and land development	1,798	-	-	90	1,888
Multifamily	740	-	-	47	787
Farmland	-	-	-	-	-
Commercial business	2,474	-	6	(594)	1,886
Consumer	23	(4)	1	(8)	12
Manufactured homes	-	-	-	-	-
Government	-	-	-	-	-
Total	$ 13,639	$ (32)	$ 28	$ 139	$ 13,774

The Bancorp's activity in the allowance for loan losses, by loan segment, is summarized below for the three months ended September 30, 2020:

Allowance for loan losses:					
Residential real estate	$ 1,708	$ -	$ 5	$ 170	$ 1,883
Home equity	231	-	-	(19)	212
Commercial real estate	3,712	-	-	675	4,387
Construction and land development	1,201	-	-	(29)	1,172
Multifamily	609	-	-	(59)	550
Farmland	-	-	-	-	-
Commercial business	2,375	-	-	113	2,488
Consumer	30	(9)	3	(2)	22
Manufactured homes	-	-	-	-	-
Government	-	-	-	-	-
Total	$ 9,866	$ (9)	$ 8	$ 849	$ 10,714

The Bancorp's activity in the allowance for loan losses, by loan segment, is summarized below for the nine months ended September 30, 2021:

Allowance for loan losses:					
Residential real estate	$ 2,211	$ (32)	$ 46	$ 250	$ 2,475
Home equity	276	(1)	-	99	374
Commercial real estate	5,406	-	-	946	6,352
Construction and land development	1,405	-	-	483	1,888
Multifamily	626	-	-	161	787
Farmland	-	-	-	-	-
Commercial business	2,508	-	25	(647)	1,886
Consumer	26	(21)	6	1	12
Manufactured homes	-	-	-	-	-
Government	-	-	-	-	-
Total	$ 12,458	$ (54)	$ 77	$ 1,293	$ 13,774

The Bancorp's activity in the allowance for loan losses, by loan segment, is summarized below for the nine months ended September 30, 2020:

Allowance for loan losses:					
Residential real estate	$ 1,812	$ (2)	$ 15	$ 58	$ 1,883
Home equity	223	-	-	(11)	212
Commercial real estate	3,773	(80)	-	694	4,387
Construction and land development	1,098	(17)	-	91	1,172
Multifamily	529	-	-	21	550
Farmland	-	-	-	-	-
Commercial business	1,504	(78)	17	1,045	2,488
Consumer	43	(22)	11	(10)	22
Manufactured homes	-	-	-	-	-
Government	17	-	-	(17)	-
Total	$ 8,999	$ (199)	$ 43	$ 1,871	$ 10,714

A deferred cost reserve is maintained for the portfolio of manufactured home loans that have been purchased. This reserve is available for use for manufactured home loan nonperformance and costs associated with nonperformance. If the segment performs in line with expectations, the deferred cost reserve is paid as a premium to the third party originator of the loan. The unamortized balance of the deferred cost reserve totaled $ 5.0 million and $3.8 million as of September 30, 2021 and December 31, 2020, respectively, and is included in net deferred loan origination costs and purchase premiums.

The Bancorp's impairment analysis is summarized below:

	Ending Balances					
(Dollars in thousands)	*Individually evaluated for impairment reserves*	*Collectively evaluated for impairment reserves*	*Loan receivables*	*Individually evaluated for impairment*	*Purchased credit impaired individually evaluated for impairment*	*Collectively evaluated for impairment*
The Bancorp's allowance for loan losses impairment evaluation and loan receivables are summarized below at September 30, 2021:						
Residential real estate	$ 12	$ 2,463	$ 268,798	$ 538	$ 1,063	$ 267,197
Home equity	4	370	35,652	156	141	35,355
Commercial real estate	1,579	4,773	309,905	7,021	-	302,884
Construction and land development	-	1,888	110,289	-	-	110,289
Multifamily	-	787	56,869	-	577	56,292
Farmland	-	-	205	-	-	205
Commercial business	309	1,577	125,922	830	1,103	123,989
Consumer	-	12	650	-	-	650
Manufactured homes	-	-	32,857	-	-	32,857
Government	-	-	9,841	-	-	9,841
Total	$ 1,904	$ 11,870	$ 950,988	$ 8,545	$ 2,884	$ 939,559
The Bancorp's allowance for loan losses impairment evaluation and loan receivables are summarized below at December 31, 2020:						
Residential real estate	$ 173	$ 2,038	$ 286,048	$ 868	$ 1,297	$ 283,883
Home equity	1	275	39,233	216	137	38,880
Commercial real estate	1,089	4,317	298,257	6,190	151	291,916
Construction and land development	-	1,405	93,562	-	-	93,562
Multifamily	-	626	50,571	95	621	49,855
Farmland	-	-	215	-	-	215
Commercial business	512	1,996	158,140	1,086	1,160	155,894
Consumer	-	26	1,025	-	-	1,025
Manufactured homes	-	-	24,232	-	-	24,232
Government	-	-	10,142	-	-	10,142
Total	$ 1,775	$ 10,683	$ 961,425	$ 8,455	$ 3,366	$ 949,604

The Bancorp's credit quality indicators are summarized below at September 30, 2021 and December 31, 2020:

Credit Exposure - Credit Risk Portfolio By Creditworthiness Category

September 30, 2021					
(Dollars in thousands)	1-5	6	7	8	
Loan Segment	Pass	Pass/monitor	Special mention	Substandard	Total
Residential real estate	$ 227,505	$ 34,285	$ 3,282	$ 3,726	$ 268,798
Home equity	33,844	728	616	464	35,652
Commercial real estate	230,839	57,388	13,615	8,063	309,905
Construction and land development	88,574	18,072	3,643	-	110,289
Multifamily	50,652	5,570	253	394	56,869
Farmland	-	205	-	-	205
Commercial business	103,791	20,013	1,407	711	125,922
Consumer	650	-	-	-	650
Manufactured homes	32,063	734	60	-	32,857
Government	9,841	-	-	-	9,841
Total	$ 777,759	$ 136,995	$ 22,876	$ 13,358	$ 950,988

December 31, 2020					
(Dollars in thousands)	1-5	6	7	8	
Loan Segment	Pass	Pass/monitor	Special mention	Substandard	Total
Residential real estate	$ 234,317	$ 41,805	$ 3,539	$ 6,387	$ 286,048
Home equity	37,044	933	761	495	39,233
Commercial real estate	222,892	55,202	11,983	8,180	298,257
Construction and land development	77,855	12,055	3,652	-	93,562
Multifamily	43,594	5,065	1,408	504	50,571
Farmland	-	215	-	-	215
Commercial business	135,671	20,067	1,341	1,061	158,140
Consumer	1,025	-	-	-	1,025
Manufactured homes	23,501	731	-	-	24,232
Government	10,142	-	-	-	10,142
Total	$ 786,041	$ 136,073	$ 22,684	$ 16,627	$ 961,425

The Bancorp has established a standard loan grading system to assist management, lenders and review personnel in their analysis and supervision of the loan portfolio. The use and application of these grades by the Bancorp is uniform and conforms to regulatory definitions. The loan grading system is as follows:

1 – Superior Quality
Loans in this category are substantially risk free. Loans fully collateralized by a Bank certificate of deposit or Bank deposits with a hold are substantially risk free.

2 – Excellent Quality
The borrower generates excellent and consistent cash flow for debt coverage, excellent average credit scores, excellent liquidity and net worth and are reputable operators with over 15 years experience. Current and debt to tangible net worth ratios are excellent. Loan to value is substantially below policy and collateral condition is excellent.

3 – Great Quality
The borrower generates more than sufficient cash flow to fund debt service and cash flow is improving. Average credit scores are very strong. Operators are reputable with significant years of experience. Liquidity, net worth, current and debt to tangible net worth ratios are very strong. Loan to value is significantly below policy and collateral condition is significantly above average.

4 – Above Average Quality
The borrower generates more than sufficient cash flow to fund debt service but cash flow trends may be stable or slightly declining. Average credit scores are strong. The borrower is a reputable operator with many years of experience. Liquidity, net worth, current and debt to tangible net worth ratios are strong. Loan to value is below policy and collateral condition is above average.

5 – **Average Quality**
Borrowers are considered creditworthy and can repay the debt in the normal course of business, however, cash flow trends may be inconsistent or fluctuating. Average credit scores are satisfactory and years of experience is acceptable. Liquidity and net worth are satisfactory. Current and debt to tangible net worth ratios are average. Loan to value is slightly below policy and the collateral condition is slightly above average.

6 – **Pass**
Borrowers are considered credit worthy but financial condition may show signs of weakness due to internal or external factors. Cash flow trends may be declining annually. Average credit scores may be low but remain acceptable. Borrower has limited years of experience. Liquidity, net worth, current and debt to tangible net worth ratios are below average. Loan to value is nearing policy limits and collateral condition is average.

7 – **Special Mention**
A special mention asset has identified weaknesses that deserve Management's close attention. If left uncorrected, these 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. There is still adequate protection by the current sound worth and paying capacity of the obligor or of the collateral pledged. The Special Mention rating is viewed as transitional and will be monitored closely.

Loans in this category may exhibit some of the following risk factors. Cash flow trends may be consistently declining or may be questionable. Debt coverage ratios may be at or near 1:1. Average credit scores may be very weak or the borrower may have minimal years of experience. Liquidity, net worth, current and debt to tangible net worth ratios may be very weak. Loan to value may be at policy limits or may exceed policy limits. Collateral condition may be below average.

8 – **Substandard**
This classification consists of loans which are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged. Financial statements normally reveal some or all of the following: poor trends, lack of earnings and cash flow, excessive debt, lack of liquidity, and the absence of creditor protection. Loans are still considered collectible, but due to increased risks and defined weaknesses of the credit, some loss could be incurred in collection if the deficiencies are not corrected.

Performing loans are loans that are paying as agreed and are approximately less than ninety days past due on payments of interest and principal.

During the nine months ending September 30, 2021, two residential real estate loans to one customer totaling $148 thousand were modified to include deferral of principal and interest resulting in troubled debt restructuring classification. One commercial real estate loan totaling $835 thousand was restructured with a reduced interest rate and extended amortization resulting in troubled debt restructuring classification. One commercial business loan totaling $601 thousand was provided a short-term renewal and a pending long term restructure resulting in troubled debt restructuring classification. One residential real estate trouble debt restructuring loan totaling $37 thousand had subsequently defaulted during the nine months ending September 30, 2021. During the nine months ending September 30, 2020, one commercial real estate loan totaling $ 145 thousand, one residential loan totaling $ 51 thousand and one home equity loan totaling $ 23 thousand were renewed as a troubled debt restructuring. One commercial business trouble debt restructuring loan totaling $287 thousand has subsequently defaulted during the periods presented. All of the loans classified as troubled debt restructurings are also considered impaired. The valuation basis for the Bancorp's troubled debt restructurings is based on the present value of cash flows, unless consistent cash flows are not present, then the fair value of the collateral securing the loan is the basis for valuation.

The Bancorp's individually evaluated impaired loans are summarized below:

	As of September 30, 2021			For the nine months ended September 30, 2021		For the three months ended September 30, 2021	
(Dollars in thousands)	*Recorded Investment*	*Unpaid Principal Balance*	*Related Allowance*	*Average Recorded Investment*	*Interest Income Recognized*	*Average Recorded Investment*	*Interest Income Recognized*
With no related allowance recorded:							
Residential real estate	$ 1,558	$ 2,917	$ -	$ 1,691	$ 83	$ 1,565	$ 41
Home equity	275	288	-	307	7	273	2
Commercial real estate	1,185	1,185	-	1,268	39	1,362	13
Construction and land development	-	-	-	-	-	-	-
Multifamily	577	665	-	647	20	587	9
Farmland	-	-	-	-	-	-	-
Commercial business	1,299	1,435	-	1,410	33	1,354	(3)
Consumer	-	-	-	-	-	-	-
Manufactured homes	-	-	-	-	-	-	-
Government	-	-	-	-	-	-	-
With an allowance recorded:							
Residential real estate	$ 43	$ 43	$ 12	$ 159	$ 1	$ 102	$ (4)
Home equity	22	22	4	17	1	22	1
Commercial real estate	5,836	5,836	1,579	5,700	145	5,852	32
Construction and land development	-	-	-	-	-	-	-
Multifamily	-	-	-	-	-	-	-
Farmland	-	-	-	-	-	-	-
Commercial business	634	634	309	698	15	659	(7)
Consumer	-	-	-	-	-	-	-
Manufactured homes	-	-	-	-	-	-	-
Government	-	-	-	-	-	-	-
Total:							
Residential real estate	$ 1,601	$ 2,960	$ 12	$ 1,850	$ 84	$ 1,667	$ 37
Home equity	$ 297	$ 310	$ 4	$ 324	$ 8	$ 295	$ 3
Commercial real estate	$ 7,021	$ 7,021	$ 1,579	$ 6,968	$ 184	$ 7,214	$ 45
Construction & land development	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Multifamily	$ 577	$ 665	$ -	$ 647	$ 20	$ 587	$ 9
Farmland	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial business	$ 1,933	$ 2,069	$ 309	$ 2,108	$ 48	$ 2,012	$ (10)
Consumer	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Manufactured homes	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Government	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(Dollars in thousands)	As of December 31, 2020 Recorded Investment	Unpaid Principal Balance	Related Allowance	For the nine months ended September 30, 2020 Average Recorded Investment	Interest Income Recognized	For the three months ended September 30, 2020 Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:							
Residential real estate	$ 1,895	$ 3,228	$ -	$ 2,061	$ 81	$ 2,000	$ 32
Home equity	352	363	-	378	13	366	4
Commercial real estate	1,177	1,761	-	1,338	65	1,155	18
Construction & land development	-	-	-	-	-	-	-
Multifamily	716	798	-	775	23	758	9
Farmland	-	-	-	-	-	-	-
Commercial business	1,497	1,514	-	1,614	61	1,578	21
Consumer	-	-	-	-	-	-	-
Manufactured homes	-	-	-	-	-	-	-
Government	-	-	-	-	-	-	-
With an allowance recorded:							
Residential real estate	$ 270	$ 314	$ 173	$ 151	$ 4	$ 234	$ 3
Home equity	1	9	1	4	-	1	-
Commercial real estate	5,164	5,164	1,089	1,346	1	2,673	-
Construction & land development	-	-	-	-	-	-	-
Multifamily	-	-	-	-	-	-	-
Farmland	-	-	-	-	-	-	-
Commercial business	749	749	512	736	19	855	-
Consumer	-	-	-	-	-	-	-
Manufactured homes	-	-	-	-	-	-	-
Government	-	-	-	-	-	-	-
Total:							
Residential real estate	$ 2,165	$ 3,542	$ 173	$ 2,212	$ 85	$ 2,234	$ 35
Home equity	$ 353	$ 372	$ 1	$ 382	$ 13	$ 367	$ 4
Commercial real estate	$ 6,341	$ 6,925	$ 1,089	$ 2,684	$ 66	$ 3,828	$ 18
Construction & land development	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Multifamily	$ 716	$ 798	$ -	$ 775	$ 23	$ 758	$ 9
Farmland	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial business	$ 2,246	$ 2,263	$ 512	$ 2,350	$ 80	$ 2,433	$ 21
Consumer	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Manufactured homes	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Government	$ -	$ -	$ -	$ -	$ -	$ -	$ -

The Bancorp's age analysis of past due loans is summarized below:

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investments Greater than 90 Days Past Due and Accruing
September 30, 2021							
Residential real estate	$ 2,057	$ 242	$ 2,422	$ 4,721	$ 264,077	$ 268,798	$ 186
Home equity	332	203	448	983	34,669	35,652	30
Commercial real estate	1,712	931	1,159	3,802	306,103	309,905	55
Construction and land development	-	-	-	-	110,289	110,289	-
Multifamily	77	273	115	465	56,404	56,869	-
Farmland	-	-	-	-	205	205	-
Commercial business	285	250	2,350	2,885	123,037	125,922	2,245
Consumer	4	-	-	4	646	650	-
Manufactured homes	347	241	-	588	32,269	32,857	-
Government	-	-	-	-	9,841	9,841	-
Total	$ 4,814	$ 2,140	$ 6,494	$ 13,448	$ 937,540	$ 950,988	$ 2,516
December 31, 2020							
Residential real estate	$ 2,797	$ 1,119	$ 4,875	$ 8,791	$ 277,257	$ 286,048	$ 80
Home equity	616	323	416	1,355	37,878	39,233	29
Commercial real estate	1,172	237	680	2,089	296,168	298,257	437
Construction and land development	471	-	20	491	93,071	93,562	20
Multifamily	94	266	150	510	50,061	50,571	-
Farmland	-	-	-	-	215	215	-
Commercial business	845	96	269	1,210	156,930	158,140	-
Consumer	2	-	-	2	1,023	1,025	-
Manufactured homes	303	173	-	476	23,756	24,232	-
Government	380	-	-	380	9,762	10,142	-
Total	$ 6,680	$ 2,214	$ 6,410	$ 15,304	$ 946,121	$ 961,425	$ 566

The Bancorp's loans on nonaccrual status are summarized below:

(Dollars in thousands)	September 30, 2021	December 31, 2020
Residential real estate	$ 3,575	$ 6,390
Home equity	448	476
Commercial real estate	6,263	5,390
Construction and land development	-	-
Multifamily	394	504
Farmland	-	-
Commercial business	347	1,039
Consumer	-	-
Manufactured homes	-	-
Government	-	-
Total	$ 11,027	$ 13,799

As a result of acquisition activity, the Bancorp acquired loans for which there was evidence of credit quality deterioration since origination and it was determined that it was probable that the Bancorp would be unable to collect all contractually required principal and interest payments. At September 30, 2021, total purchased credit impaired loans with unpaid principal balances totaled $ 4.2 million with a recorded investment of $ 2.9 million. At December 31, 2020, purchased credit impaired loans with unpaid principal balances totaled $ 5.4 million with a recorded investment of $ 3.4 million.

Accretable interest taken from the purchase credit impaired portfolio, or income recorded for the nine months ended September 30, is as follows:

(dollars in thousands)	Total
2020	$ 78
2021	21

Accretable interest taken from the purchase credit impaired portfolio, or income recorded for the three months ended September 30, is as follows:

(dollars in thousands)	Total
2020	$ 21
2021	-

The accretable interest portion of the purchase credit impaired portfolio has fully amortized at September 30, 2021.

As part of the fair value of loans receivable, there was a net fair value discount for loans acquired of $ 1.2 million at September 30, 2021, compared to $2.0 million at December 31, 2020. Total unpaid principal balances of acquired non-impaired loans with remaining fair value discount totaled $ 78.3 million and $106.6 million as of September 30, 2021, and December 31, 2020, respectively.

Accretable yield, or income recorded for the nine months ended September 30, is as follows:

(dollars in thousands)	Total
2020	$ 1,352
2021	793

Accretable yield, or income recorded for the three months ended September 30, is as follows:

(dollars in thousands)	Total
2020	$ 377
2021	188

Accretable yield, or income expected to be recorded in the future is as follows:

(dollars in thousands)	Total
2021	$ 196
2022	758
2023	271
Total	$ 1,225

Note 5 - Foreclosed Real Estate

Foreclosed real estate at period-end is summarized below:

	(Dollars in thousands) September 30, 2021	December 31, 2020
Residential real estate	$ 81	$ 328
Commercial business	-	210
Total	$ 81	$ 538

Note 6 – **Intangibles and Acquisition Related Accounting**

The Bancorp established a goodwill balance totaling $11.1 million from past acquisitions. Goodwill is tested annually for impairment. Goodwill arising from business combinations represents the value attributable to unidentifiable intangible assets in the business acquired. The Bancorp's goodwill relates to the value inherent in the banking industry and that value is dependent upon the ability of the Bancorp to provide quality, cost effective banking services in a competitive marketplace. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value. Additionally, as part of the Bancorp's annual impairment test of goodwill as of December 31, 2020, the Bancorp enlisted a third party expert to assist with the evaluation of goodwill for impairment. The evaluation involved the comparison of the fair value of the Bancorp to its carrying value. The Bancorp determined its fair value using a blend of the income approach (discounted cash flow model) and market approach (guideline public company method and guideline transaction method). The determination of the fair value using the discounted cash flow model required the Bancorp to make significant estimates and assumptions related to forecasts of future income, provision for credit losses, and discount rates. The determination of the fair value using the guideline public company method required management to make significant assumptions related to price to tangible book value multiples and price to earnings multiples, as well as significant assumptions related to control premiums. The determination of the fair value using the guideline transaction method required management to review the value of the business based on pricing multiples derived from the sale of companies that are similar to the Bancorp. The Bancorp's estimation of fair value for the quantitative goodwill impairment testing exceeded its carrying value as of December 31, 2020 and therefore, no impairment was recognized. There has not been any impairment of goodwill identified or recorded. Goodwill totaled $ 11.1 million as of September 30, 2021 and December 31, 2020.

In addition to goodwill, core deposit intangibles were established from past acquisitions and are subject to amortization. As of September 30, 2021, the Bancorp had core deposit intangible balances of $3.6 million. The table below summarizes the annual amortization:

Amortization recorded for the nine months ended September 30, 2021 is as follows:

(dollars in thousands)	Total
Current period	$ 745

Amortization recorded for the three months ended September 30, 2021 is as follows:

(dollars in thousands)	Total
Current period	$ 248

Amortization to be recorded in future periods, is as follows:

(dollars in thousands)	Total
Remainder 2021	249
2022	983
2023	962
2024	919
2025	261
Total	$ 3,374

Note 7 - Concentrations of Credit Risk

The primary lending area of the Bancorp encompasses Lake County in northwest Indiana and Cook County in northeast Illinois, where collectively a majority of loan activity is concentrated. The Bancorp is also an active lender in Porter County, and to a lesser extent, LaPorte, Newton and Jasper counties in Indiana; and DuPage, Lake, and Will counties in Illinois. Substantially all loans are secured by specific items of collateral including residences, commercial real estate, land development, business assets and consumer assets.

Note 8 - Earnings per Share

Earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding. A reconciliation of the numerators and denominators of the basic and diluted earnings per common share computations for the three and nine months ended September 30, 2021, and 2020, are as follows:

(Dollars in thousands, except per share data)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Basic earnings per common share:				
Net income as reported	$ 3,538	$ 4,687	$ 11,652	$ 12,651
Weighted average common shares outstanding	3,479,139	3,463,136	3,476,406	3,461,598
Basic earnings per common share	$ 1.02	$ 1.35	$ 3.35	$ 3.65
Diluted earnings per common share:			-	
Net income as reported	$ 3,538	$ 4,687	$ 11,652	$ 12,651
Weighted average common shares outstanding	3,479,139	3,463,136	3,476,406	3,461,598
Weighted average common and dilutive potential common shares outstanding	3,479,139	3,463,136	3,476,406	3,461,598
Diluted earnings per common share	$ 1.02	$ 1.35	$ 3.35	$ 3.65

Note 9 - Stock Based Compensation

The Bancorp's 2015 Stock Option and Incentive Plan (the "Plan"), which was adopted by the Bancorp's Board of Directors on February 27, 2015, and approved by the Bancorp's shareholders on April 24, 2015, permits the grant of equity awards for up to 250,000 shares of common stock. Awards granted under the Plan may be in the form of incentive stock options, non-qualified stock options, restricted stock, unrestricted stock, performance shares, or performance units.

As required by the Stock Compensation Topic, companies are required to record compensation cost for stock options and awards provided to employees in return for employment service. For the nine months ended September 30, 2021, stock based compensation expense of $428 thousand was recorded, compared to $309 thousand for the nine months ended September 30, 2020. It is anticipated that current outstanding unvested awards will result in additional compensation expense of approximately $950 thousand through 2024 with an additional $142 thousand in 2021, $464 thousand in 2022, $291 thousand in 2023, and $53 thousand in 2024.

There were 19,693 shares of restricted stock granted during the first nine months of 2021 compared to 13,243 shares granted during the first nine months of 2020. Restricted stock awards are issued with an award price equal to the market price of the Bancorp's common stock on the award date and vest between three and five years after the grant date. Forfeiture provisions exist for personnel that separate employment before the vesting period expires. A summary of restricted stock activity under the Bancorp's Plan described above for the year ended December 31, 2020, and nine months ended September 30, 2021, follows:

Non-vested Shares	*Shares*	*Weighted Average Grant Date Fair Value*
Non-vested at January 1, 2020	30,205	$ 35.63
Granted	13,243	44.30
Vested	(6,400)	27.50
Forfeited	(220)	43.65
Non-vested at December 31, 2020	36,828	$ 40.11
Non-vested at January 1, 2021	36,828	$ 40.11
Granted	19,693	40.96
Vested	(13,493)	34.84
Forfeited	(355)	41.50
Non-vested at September 30, 2021	42,673	$ 42.16

Note 10 – Change in Accounting Principles

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This Standard simplifies the manner in which an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. In computing the implied fair value of goodwill under Step 2, an entity, prior to the amendments in ASU No. 2017-04, had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities, including unrecognized assets and liabilities, in accordance with the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. However, under the amendments in this ASU, an entity should (1) perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and (2) recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, with the understanding that the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, ASU No. 2017-04 removes the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails such qualitative test, to perform Step 2 of the goodwill impairment test. Finally, this ASU amends the Overview and Background sections of the Accounting Standards Codification as part of the FASB's initiative to unify and improve such sections across Topics and Subtopics. The new guidance was effective for the Bancorp's year ending December 31, 2020, and was adopted on January 1, 2020. The adoption of this ASU has not had a material impact on the consolidated financial statements, and the Bancorp has not recorded goodwill impairment to date as part of their acquisition activity.

On January 1, 2020, the Bancorp adopted the provision of ASU 2018–13, which modifies the disclosure requirements on fair value measurements. The amendment removes certain disclosures required by Topic 820 related to transfers between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; and the valuation processes for Level 3 fair value measurements. The update also adds certain disclosure requirements related to changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, the Bancorp may disclose other quantitative information in lieu of the weighted average if we determine that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. The adoption of this new guidance did not have a material impact on our consolidated financial statements

In December 2019, the FASB issued ASU 2019-12 which remove specific exceptions to the general principles in Topic 740 in GAAP. It eliminates the need for an organization to analyze whether the following apply in a given period: exception to the incremental approach for intraperiod tax allocation; exceptions to accounting for basis differences where there are ownership changes in foreign investments; and exception in interim period income tax accounting for year-to-date losses that exceed anticipated losses. It also improves financial statement preparers' application of income tax-related guidance and simplifies GAAP for: franchise taxes that are partially based on income; transactions with a government that result in a step up in the tax basis of goodwill; separate financial statements of legal entities that are not subject to tax; and enacts changes in tax laws in interim periods. The guidance is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted. The Bancorp adopted ASU 2019-12 on January 1, 2021 and it did not have a material impact on its accounting and disclosures.

Note 11 - Upcoming Accounting Standards

In June 2016, 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 Bancorp's loans and available-for-sale debt securities. Each financial asset presented on the balance sheet would have a unique allowance for credit losses valuation account that is deducted from the amortized cost basis to present the net carrying value at the amount expected to be collected on the financial asset. The amendments in this ASU also eliminate the probable initial recognition threshold in current GAAP and instead, reflect an entity's current estimate of all expected credit losses using reasonable and supportable forecasts. In October 2019, the FASB voted and approved proposed changes to the effective date of this ASU for smaller reporting companies, such as the Bancorp, and other non-SEC reporting entities. The approval changed the effective date of the ASU to fiscal years beginning after December 15, 2022, including interim periods within those fiscal periods. The new credit loss guidance will be effective for the Bancorp'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. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. Early adoption for all institutions is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Management is in the process of evaluating the impact adoption of this update will have on the Bancorp's consolidated financial statements. This process of evaluation has engaged multiple areas of the Bancorp's management in discussing loss estimation methods and the application of these methods to specific segments of the loans receivable portfolio. Management has been actively monitoring developments and evaluating the use of different methods allowed. Due to continuing development of understanding of application, additional time is required to understand how this ASU will affect the Bancorp's financial statements. Management plans on running parallel calculations and finalizing a method or methods of adoption in time for the effective date.

In March 2020, the FASB issued ASU No. 2020-04 “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” These amendments provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. It is intended to help stakeholders during the global market-wide reference rate transition period. In January 2021, the FASB issued ASU 2021-01 which clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. The guidance is effective for all entities as of March 12, 2020, through December 31, 2022. The Bancorp is implementing a transition plan to identify and modify its loans and other financial instruments with attributes that are either directly or indirectly influenced by LIBOR. The Bancorp believes the adoption of this guidance on activities after December 31, 2020, through December 31, 2022, will not have a material impact on the consolidated financial statements.

Note 12 – Derivative Financial Instruments

The Bancorp uses derivative financial instruments to help manage exposure to interest rate risk and the effects that changes in interest rates may have on net income and the fair value of assets and liabilities. The Bancorp has certain interest rate derivative positions that are not designated as hedging instruments. Derivative assets and liabilities are recorded at fair value on the Consolidated Balance Sheet and do not take into account the effects of master netting agreements. Master netting agreements allow the Bancorp to settle all derivative contracts held with a single counterparty on a net basis, and to offset net derivative positions with related collateral, where applicable. These derivative positions relate to transactions in which the Bancorp enters into an interest rate swap with a client while at the same time entering into an offsetting interest rate swap with another financial institution. In connection with each transaction, the Bancorp agrees to pay interest to the client on a notional amount at a variable interest rate and receive interest from the client on the same notional amount at a fixed interest rate. At the same time, the Bancorp agrees to pay another financial institution the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. The transaction allows the client to effectively convert a variable rate loan to a fixed rate. Because the terms of the swaps with the customers and the other financial institutions offset each other, with the only difference being counterparty credit risk, changes in the fair value of the underlying derivative contracts are not materially different and do not significantly impact the Bancorp’s results of operations.

The Bancorp enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (i.e., interest rate lock commitment). The interest rate lock commitments are considered derivatives and are recorded on the accompanying consolidated balance sheets at fair value in accordance with FASB ASC 815, Derivatives and Hedging.

The following table shows the amounts of non-hedging derivative financial instruments:

(Unaudited)	September 30, 2021				
		Asset derivatives		Liability derivatives	
(Dollars in thousands)	Notational or contractual amount	Statement of Financial Condition classification	Fair value	Statement of Financial Condition classification	Fair value
Interest rate swap contracts	$ 98,855	Other assets	$ 2,945	Other liabilties	$ 2,945
Interest rate lock commitments	12,342	Other assets	222	N/A	-
Total	$ 111,197		$ 3,167		$ 2,945

	December 31, 2020				
		Asset derivatives		Liability derivatives	
(Dollars in thousands)	Notational or contractual amount	Statement of Financial Condition classification	Fair value	Statement of Financial Condition classification	Fair value
Interest rate swap contracts	$ 72,707	Other assets	$ 3,638	Other liabilties	$ 3,638
Interest rate lock commitments	26,443	Other assets	374	N/A	-
Total	$ 99,150		$ 4,012		$ 3,638

The following table shows the amounts included in the Statements of Income for non-hedging derivative financial instruments:

(Unaudited)		Nine Months Ended September 30,		Three Months Ended September 30,	
(Dollars in thousands)	Statement of Income Classification	2021	2020	2021	2020
Interest rate swap contracts	Fees and service charges	$ 379	$ 512	$ 161	$ 281
Interest rate lock commitments	Gain on sale of loans held-for-sale, net	(152)	309	(24)	11
Total		$ 227	$ 821	$ 137	$ 292

The following table shows the offsetting of financial assets and derivative assets:

(Unaudited) (Dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Assets Presented in the Statement of Financial Condition	Gross Amounts not Offset in the Statement of Financial Condition: Financial Instruments	Gross Amounts not Offset in the Statement of Financial Condition: Cash Collateral Received	Net Amount
September 30, 2021						
Interest rate swap contracts	$ 2,945	$ -	$ 2,945	$ -	$ -	$ 2,945
Interest rate lock commitments	222	-	222	-	-	222
Total	$ 3,167	$ -	$ 3,167	$ -	$ -	$ 3,167

(Dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Liabilities Presented in the Statement of Financial Condition	Gross Amounts not Offset in the Statement of Financial Condition: Financial Instruments	Gross Amounts not Offset in the Statement of Financial Condition: Cash Collateral Received	Net Amount
December 31, 2020						
Interest rate swap contracts	$ 3,638	$ -	$ 3,638	$ -	$ -	$ 3,638
Interest rate lock commitments	374	-	374	-	-	374
Total	$ 4,012	$ -	$ 4,012	$ -	$ -	$ 4,012

The following table shows the offsetting of financial liabilities and derivative liabilities:

(Unaudited) (Dollars in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Liabilities Presented in the Statement of Financial Condition	Gross Amounts not Offset in the Statement of Financial Condition: Financial Instruments	Gross Amounts not Offset in the Statement of Financial Condition: Cash Collateral Pledged	Net Amount
September 30, 2021						
Interest rate swap contracts	$ 2,945	$ -	$ 2,945	$ -	$ 3,930	$ (985)
Total	$ 2,945	$ -	$ 2,945	$ -	$ 3,930	$ (985)

(Dollars in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Liabilities Presented in the Statement of Financial Condition	Gross Amounts not Offset in the Statement of Financial Condition: Financial Instruments	Gross Amounts not Offset in the Statement of Financial Condition: Cash Collateral Pledged	Net Amount
December 31, 2020						
Interest rate swap contracts	$ 3,638	$ -	$ 3,638	$ -	$ 3,930	$ (292)
Total	$ 3,638	$ -	$ 3,638	$ -	$ 3,930	$ (292)

Note 13 - Fair Value

The Fair Value Measurements Topic establishes a hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Topic describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of securities available-for-sale are determined on a recurring basis by obtaining quoted prices on nationally recognized securities exchanges or pricing models utilizing significant observable inputs such as matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. Different judgments and assumptions used in pricing could result in different estimates of value. In certain cases where market data is not readily available because of a lack of market activity or little public disclosure, values may be based on unobservable inputs and classified in Level 3 of the fair value hierarchy.

At the end of each reporting period, securities held in the investment portfolio are evaluated on an individual security level for other-than-temporary impairment in accordance with GAAP. Impairment is other-than-temporary if the decline in the fair value is below its amortized cost and it is probable that all amounts due according to the contractual terms of a debt security will not be received. Significant judgments are required in determining impairment, which include making assumptions regarding the estimated prepayments, loss assumptions and the change in interest rates. The Bancorp considers the following factors when determining an other-than-temporary impairment for a security: the length of time and the extent to which the market value has been less than amortized cost; the financial condition and near-term prospects of the issuer; the underlying fundamentals of the relevant market and the outlook for such market for the near future; an assessment of whether the Bancorp (1) has the intent to sell the debt securities or (2) more likely than not will be required to sell the debt securities before their anticipated market recovery. If either of these conditions is met, management will recognize other-than-temporary impairment. If, in management's judgment, an other-than-temporary impairment exists, the cost basis of the security will be written down for the credit loss, and the unrealized loss will be transferred from accumulated other comprehensive loss as an immediate reduction of current earnings.

The Bancorp’s management utilizes a specialist to perform an other-than-temporary impairment analysis for each of its pooled trust preferred securities. The analysis is performed annually during December and utilizes analytical models used to project future cash flows for the pooled trust preferred securities based on current assumptions for prepayments, default and deferral rates, and recoveries. The projected cash flows are then tested for impairment consistent with GAAP. The other-than-temporary impairment testing compares the present value of the cash flows from quarter to quarter to determine if there is a “favorable” or “adverse” change. Other-than-temporary impairment is recorded if the projected present value of cash flows is lower than the book value of the security. To perform the annual other-than-temporary impairment analysis, management utilizes current reports issued by the trustee, which contain principal and interest tests, waterfall distributions, note valuations, collection detail and credit ratings for each pooled trust preferred security. In addition, a detailed review of the performing collateral was performed. Based on current market conditions and a review of the trustee reports, management performed an analysis of the pooled trust preferred securities and no additional impairment was taken at December 31, 2020. A specialist will be used to review all pooled trust preferred securities again at December 31, 2021.

The table below shows the credit loss roll forward on a year-to-date basis for the Bancorp’s pooled trust preferred securities that have been classified with other-than-temporary impairment:

(Dollars in thousands)	*(Dollars in Thousands) Collateralized debt obligations other-than-temporary impairment*
Ending balance, December 31, 2020	$ 173
Additions not previously recognized	-
Ending balance, September 30, 2021	$ 173

At September 30, 2021, trust preferred securities with a cost basis of $ 2.2 million continue to be in “payment in kind” status. These trust preferred securities classified as “payment in kind” are a result of not receiving the scheduled quarterly interest payments. For these trust preferred securities in “payment in kind” status, management anticipates to receive the unpaid contractual interest payments from the issuer, because of the self-correcting cash flow waterfall provisions within the structure of the securities. When a tranche senior to the Bancorp’s position fails the coverage test, the Bancorp’s interest cash flows are paid to the senior tranche and recorded as a reduction of principal. The coverage test represents an over collateralization target by stating the balance of the performing collateral as a percentage of the balance of the Bancorp’s tranche, plus the balance of all senior tranches. The principal reduction in the senior tranche continues until the appropriate coverage test is passed. As a result of the principal reduction in the senior tranche, more cash is available for future payments to the Bancorp’s tranche. Consistent with GAAP, management considered the failure of the issuer of the security to make scheduled interest payments in determining whether a credit loss existed. Management will not capitalize the “payment in kind” interest payments to the book value of the securities and will keep these securities in non-accrual status until the quarterly interest payments resume on a consistent basis.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

There were no transfers to or from Levels 1 and 2 during the nine months ended September 30, 2021. Assets measured at fair value on a recurring basis are summarized below:

(Dollars in thousands)	Estimated Fair Value	Fair Value Measurements at September 30, 2021 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale debt securities:				
U.S. government sponsored entities	10,761	-	10,761	-
U.S. treasury securities	401	-	401	-
Collateralized mortgage obligations and residential mortgage-backed securities	198,485	-	198,485	-
Municipal securities	320,352	-	320,352	-
Collateralized debt obligations	1,011	-	-	1,011
Total securities available-for-sale	$ 531,010	$ -	$ 529,999	$ 1,011

(Dollars in thousands)	Estimated Fair Value	Fair Value Measurements at December 31, 2020 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale debt securities:				
Money market fund	$ 52,941	$ 52,941	$ -	$ -
U.S. government sponsored entities	7,860	-	7,860	-
Collateralized mortgage obligations and residential mortgage-backed securities....	154,736	-	154,736	-
Municipal securities	194,203	-	194,203	-
Collateralized debt obligations	929	-	-	929
Total securities available-for-sale	$ 410,669	$ 52,941	$ 356,799	$ 929

A roll forward of available-for-sale securities, which require significant adjustment based on unobservable data, are presented in the following table:

(Dollars in thousands)	*Estimated Fair Value Measurements Using Significant Unobservable Inputs (Level 3)* Available-for-sale securities
Beginning balance, January 1, 2020	$ 1,076
Principal payments	(20)
Total unrealized losses, included in other comprehensive income..	(127)
Ending balance, December 31, 2020	$ 929
Beginning balance, January 1, 2021	$ 929
Principal payments	(9)
Total unrealized gains, included in other comprehensive income....	91
Ending balance, September 30, 2021	$ 1,011

Assets measured at fair value on a non-recurring basis are summarized below:

(Dollars in thousands)	Estimated Fair Value	(Dollars in thousands) Fair Value Measurements at September 30, 2021 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 9,525	$ -	$ -	$ 9,525
Foreclosed real estate	81	-	-	81

(Dollars in thousands)	Estimated Fair Value	(Dollars in thousands) Fair Value Measurements at December 31, 2020 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 10,046	$ -	$ -	$ 10,046
Foreclosed real estate	538	-	-	538

The fair value of impaired loans with specific allocations of the allowance for loan losses or loans for which charge-offs have been taken is generally based on a present value of cash flows or, for collateral dependent loans, based on recent real estate appraisals. Appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. The recorded investment in impaired loans was approximately $11.4 million and the related specific reserves totaled approximately $ 1.9 million, resulting in a fair value of impaired loans totaling approximately $9.5 million, at September 30, 2021. The recorded investment of impaired loans was approximately $ 11.8 million and the related specific reserves totaled approximately $1.8 million, resulting in a fair value of impaired loans totaling approximately $ 10.0 million, at December 31, 2020. Fair value is determined, where possible, using market prices derived from an appraisal or evaluation, which are considered to be Level 2 inputs. However, certain assumptions and unobservable inputs are often used by the appraiser, therefore, qualifying the assets as Level 3 in the fair value hierarchy. The fair value of foreclosed real estate is similarly determined by using the results of recent real estate appraisals. The numerical range of unobservable inputs for these valuation assumptions is not meaningful to this presentation.

The following table shows carrying values and related estimated fair values of financial instruments as of the dates indicated. Estimated fair values are further categorized by the inputs used to measure fair value. Items that are not financial instruments are not included.

(Dollars in thousands)	September 30, 2021		Estimated Fair Value Measurements at September 31, 2021 Using		
	Carrying Value	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	$ 31,765	$ 31,765	$ 31,765	$ -	$ -
Certificates of deposit in other financial institutions	977	962	-	962	-
Securities available-for-sale	531,010	531,010	-	529,999	1,011
Loans held-for-sale	3,868	3,968	3,968	-	-
Loans receivable, net	942,578	943,571	-	-	943,571
Federal Home Loan Bank stock	3,247	3,247	-	3,247	-
Interest rate swap agreements	2,945	2,945	-	2,945	-
Accrued interest receivable	5,259	5,259	-	5,259	-
Financial liabilities:					
Non-interest bearing deposits	287,376	287,376	287,376	-	-
Interest bearing deposits	1,118,824	1,119,137	854,927	264,210	-
Repurchase agreements	23,844	23,853	22,106	1,747	-
Interest rate swap agreements	2,945	2,945	-	2,945	-
Accrued interest payable	36	36	-	36	-

(Dollars in thousands)	December 31, 2020		Estimated Fair Value Measurements at December 31, 2020 Using		
	Carrying Value	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	$ 19,922	$ 19,922	$ 19,922	$ -	$ -
Certificates of deposit in other financial institutions	1,897	1,868	-	1,868	-
Securities available-for-sale	410,669	410,669	52,941	356,799	929
Loans held-for-sale	11,329	11,660	11,660	-	-
Loans receivable, net	952,688	982,793	-	-	982,793
Federal Home Loan Bank stock	3,918	3,918	-	3,918	-
Interest rate swap agreements	3,638	3,638	-	3,638	-
Accrued interest receivable	4,713	4,713	-	4,713	-
Financial liabilities:					
Non-interest bearing deposits	241,620	241,620	241,620	-	-
Interest bearing deposits	1,060,719	1,061,294	775,891	285,403	-
Repurchase agreements	13,711	13,713	11,976	1,737	-
Borrowed funds	6,149	6,018	-	6,018	-
Interest rate swap agreements	3,638	3,638	-	3,638	-
Accrued interest payable	54	54	-	54	-

The following methods were used to estimate the fair value of financial instruments presented in the preceding table for the periods ended September 30, 2021 and December 31, 2020:

Cash and cash equivalent carrying amounts approximate fair value. Certificates of deposits in other financial institutions carrying amounts approximate fair value (Level 2). The fair values of securities available-for-sale are obtained from broker pricing (Level 2), with the exception of collateralized debt obligations, which are valued by a third-party specialist (Level 3). Loans held-for-sale comprise residential mortgages and are priced based on values established by the secondary mortgage markets (Level 1). The estimated fair value for net loans receivable is based on the exit price notion which is the exchange price that would be received to transfer the loans at the most advantageous market price in an orderly transaction between market participants on the measurement date (Level 3). Federal Home Loan Bank stock is estimated at book value due to restrictions that limit the sale or transfer of the security. Interest rate swap agreements, both assets and liabilities, are valued by a third-party pricing agent using an income approach (Level 2). Fair values of accrued interest receivable and payable approximate book value, as the carrying values are determined using the observable interest rate, balance, and last payment date.

Non-interest and interest bearing deposits, which include checking, savings, and money market deposits, are estimated to have fair values based on the amount payable as of the reporting date (Level 1). The fair value of fixed-maturity certificates of deposit (included in interest bearing deposits) are based on estimates of the rate the Bancorp would pay on similar deposits, applied for the time period until maturity (Level 2). Estimated fair values for short-term repurchase agreements, which represent sweeps from demand deposits to accounts secured by pledged securities, are estimated based on the amount payable as of the reporting date (Level 1). Longer-term repurchase agreements, with contractual maturity dates of three months or more, are based on estimates of the rate the Bancorp would pay on similar deposits, applied for the time period until maturity (Level 2). Short-term borrowings are generally only held overnight, therefore, their carrying amount is a reasonable estimate of fair value (Level 1). The fair value of FHLB Advances are estimated by discounting the future cash flows using quoted rates from the FHLB for similar advances with similar maturities (Level 2). The estimated fair value of other financial instruments, and off-balance sheet loan commitments, approximate cost and are not considered significant to this presentation.

Note 14 - Acquisition Activity

On July 28, 2021, Finward entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Royal Financial, Inc., a Delaware corporation (“RYFL”). Pursuant to the Merger Agreement, RYFL will merge with and into Finward, with Finward as the surviving corporation (the “Merger”). At a time to be determined at or following the Merger, Royal Savings Bank, an Illinois state chartered savings bank and wholly-owned subsidiary of RYFL (“Royal Bank”), will merge with and into Peoples Bank, the wholly-owned Indiana state chartered commercial bank subsidiary of Finward (“Peoples Bank”), with Peoples Bank as the surviving bank.

Subject to the approval of the Merger by Finward’s and RYFL’s respective stockholders, regulatory approvals, and other customary closing conditions, the parties anticipate completing the Merger during the first quarter of 2022.

Upon completion of the Merger, each RYFL stockholder will have the right to receive, at the stockholder’s election, 0.4609 shares of Finward common stock or $20.14 in cash, or a combination of both, for each share of RYFL’s common stock, subject to allocation provisions and adjustment. Stockholders holding less than 101 shares of RYFL common stock will only have the right to receive fixed consideration of $ 20.14 in cash and will not be entitled to make an election with respect to the merger consideration.

Robert W. Youman, a current director of RYFL, will be appointed to the boards of directors of Finward and Peoples Bank effective as of the closing of the Merger.

RYFL has a home office and eight branch offices in Cook County, Illinois. As of June 30, 2021, RYFL reported total assets of $533.7 million, total loans of $464.2 million, and total deposits of $466.3 million. The combined bank is expected to have approximately $2.1 billion in total assets, $1.4 billion in total loans, and $1.9 billion in deposits. The acquisition will further expand the Bank’s banking center network in Cook County, Illinois.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Summary

Finward Bancorp (the “Bancorp” or “Finward”) is a financial holding company registered with the Board of Governors of the Federal Reserve System. Peoples Bank (“the Bank”), an Indiana commercial bank, and NWIN Risk Management, Inc., a captive insurance company, are wholly-owned subsidiaries of the Bancorp. The Bancorp has no other business activity other than being a holding company for the Bank and NWIN Risk Management, Inc. The following management’s discussion and analysis presents information concerning our financial condition as of September 30, 2021, as compared to December 31, 2020, and the results of operations for the quarter and nine months ending September 30, 2021, and September 30, 2020. This discussion should be read in conjunction with the consolidated financial statements and other financial data presented elsewhere herein and with the financial statements and other financial data, as well as the Management’s Discussion and Analysis of Financial Condition and Results of Operations, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020.

At September 30, 2021, the Bancorp had total assets of $1.6 billion, total loans receivable of $956.4 million and total deposits of $1.4 billion. Stockholders' equity totaled $152.6 million or 9.5% of total assets, with a book value per share of $43.85. Net income for the quarter ended September 30, 2021, was $3.5 million, or $1.02 earnings per common share for both basic and diluted calculations. For the quarter ended September 30, 2021, the return on average assets (ROA) was 0.87%, while the return on average stockholders' equity (ROE) was 8.90%. Net income for the nine months ended September 30, 2021, was $11.7 million, or $3.35 earnings per common share for both basic and diluted calculations. For the nine months ended September 30, 2021, the ROA was 0.89%, while the ROE was 9.96%.

Revision of Previously Issued Financial Statements

This information should be read in conjunction with the condensed consolidated financial statements and the notes thereto included in "Part I, Item 1" of this Quarterly Report. We have revised our prior period financial statements to reflect the correction of immaterial errors as described in this Quarterly Report in Notes to Condensed Consolidated Financial Statements, Note 1 – Basis of Presentation, "Revision of Previously Issued Financial Statements".

Recent Developments

Merger Agreement with Royal Financial, Inc. On July 28, 2021, Finward entered into an Agreement and Plan of Merger (the "Merger Agreement") with Royal Financial, Inc., a Delaware corporation ("RYFL"). Pursuant to the Merger Agreement, RYFL will merge with and into Finward, with Finward as the surviving corporation (the "Merger"). At a time to be determined at or following the Merger, Royal Savings Bank, an Illinois state chartered savings bank and wholly-owned subsidiary of RYFL ("Royal Bank"), will merge with and into Peoples Bank, the wholly-owned Indiana state chartered commercial bank subsidiary of Finward, with Peoples Bank as the surviving bank.

Subject to the approval of the Merger by Finward's and RYFL's respective stockholders, regulatory approvals, and other customary closing conditions, the parties anticipate completing the Merger during the first quarter of 2022.

Upon completion of the Merger, each RYFL stockholder will have the right to receive, at the stockholder's election, 0.4609 shares of Finward common stock or $20.14 in cash, or a combination of both, for each share of RYFL's common stock, subject to allocation provisions and adjustment, as described below. Stockholders holding less than 101 shares of RYFL common stock will only have the right to receive fixed consideration of $20.14 in cash and will not be entitled to make an election with respect to the merger consideration. The Merger Agreement provides that, in the aggregate, 65% of the outstanding shares of RYFL common stock will be converted into the right to receive shares of Finward common stock and the remaining 35% of the outstanding shares of RYFL common stock will be converted into the right to receive cash. All outstanding options to purchase RYFL common stock, whether or not vested, will be converted into the right to receive at the effective time of the Merger, an amount of cash equal to $20.14 minus the per share exercise price for each share of RYFL common stock subject to an option, less applicable tax withholdings. In addition, at the effective time of the Merger, each award of RYFL restricted stock, whether or not vested, that is outstanding immediately prior to the effective time will fully vest and be cancelled and converted into the right to receive the merger consideration, less applicable tax withholdings.

Robert W. Youman, a current director of RYFL, will be appointed to the boards of directors of Finward and Peoples Bank effective as of the closing of the Merger.

COVID-19

We continue to monitor the impact COVID-19 is having on the markets in which we operate in and the uncertainty of the long-term ramifications to our customers and operations. Within our markets, vaccinations have become readily available, infection positivity rates are at moderate levels, and the restrictions on businesses have generally been fully lifted. However, the lasting effects of government aid programs are uncertain as stimulus packages taper, and the ultimate long-term impact of the business shutdowns that occurred as a result of COVID-19 remains uncertain in many sectors of the economy. In the third quarter of 2021, COVID-19 positivity rates and hospitalizations in our markets rose due to the impact of the Delta variant, but have now been falling for the last several weeks.

The Federal Reserve, in response to the economic risks resulting from the COVID-19 pandemic, returned to a zero-interest rate policy in March 2020. This was after most broader market rates decreased significantly in response to evolving news about the COVID-19 pandemic. Many areas of consumer and business spending have rebounded in recent months, but there remains uncertainty about the longer lasting impact on local businesses as well as the travel, hospitality and entertainment industries resulting from the COVID-19 pandemic. This could cause a longer recovery time for all sectors of the economy and could make it challenging for sectors that have had better recoveries to maintain those recoveries in the long run. Inflation and supply shortages also pose risks to the economic recovery.

While positive economic indicators exist, we recognize that some of our commercial and individual customers are continuing to experience varying degrees of financial distress, which we expect to continue, though to a lesser degree, through the end of 2021 and into early 2022. Commercial activity has improved, but has not returned to the levels existing prior to the outbreak of the COVID-19 pandemic, which may result in some customers' inability to meet their loan obligations to us or seek deferrals on their obligations. In addition, the economic pressures and uncertainties related to the COVID-19 pandemic have seemingly resulted in changes in consumer spending behaviors, which may negatively impact the demand for loans and other services we offer. Our borrowing base includes customers in industries such as hotel/lodging, restaurants, retail and commercial real estate, which have been significantly impacted by the COVID-19 pandemic. We recognize that these industries may take longer to recover as consumers may be hesitant to return to full social interaction or may change their spending habits on a more permanent basis as a result of the COVID-19 pandemic. We continue to monitor these customers closely.

Impacts of COVID-19

The COVID-19 pandemic began to impact the Bancorp's operations during March 2020, and as of the date of this report, continues to influence operating decisions. In response to the pandemic, the Bancorp's management implemented the following policy actions:

- Participating in the U.S. Small Business Administration's Paycheck Protection Program ("PPP"), a program initiated to help small businesses maintain their workforces during the pandemic. As of September 30, 2021, the Bancorp approved 782 applications totaling $91.5 million for the first round, with an average loan size of approximately $117 thousand. These loans helped local business owners retain 10,758 employees based on the borrowers' applications. The Bancorp's SBA lender fee is averaging approximately 3.80% for the first round of the program, and fees will be earned over the life of the associated loans. The first round of PPP closed in August of 2020. On December 21, 2020, Congress passed the Consolidated Appropriations Act, 2021, which included provisions for a second round of PPP funding in 2021. As of September 30, 2021, the Bancorp approved 420 applications totaling $37.5 million for the second round, with an average loan size of approximately $89 thousand. These loans will help local business owners retain 4,410 employees based on the borrowers' applications. The Bancorp's SBA lender fee is averaging approximately 5.32% for this program, and fees will be earned over the life of the associated loans. As of September 30, 2021, the Bancorp had remaining loan balances under the Paycheck Protection Program totaling $32.9 million.

- Prudently helping borrowers who are or may be unable to meet their contractual payment obligations because of the effects of COVID-19. Consistent with regulatory guidance, the Bancorp will consider deferring or modifying a loan customer's repayment obligation if the customer's cash flow has been negatively impacted by the pandemic. Outstanding borrower deferrals and modifications continue to decline. Loans modified to interest only payment or full payment deferral as part of the effects of COVID-19 as of September 30, 2021 and June 30, 2021, are as follows:

(Dollars in thousands)	(Unaudited)			
As of September 30, 2021	Mortgage loans		Commercial Loans	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Interest only	11	$ 1,485	-	$ -
Total $	11	$ 1,485	-	$ -

(Dollars in thousands)	(Unaudited)			
As of June 30, 2021	Mortgage loans		Commercial Loans	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Interest only	15	$ 1,656	1	$ 2,973
Full interest, partial principal	-	-	2	1,021
Full payment deferral	1	98	-	-
Total $	16	$ 1,754	3	$ 3,994

- As the Bancorp continues to monitor the borrowers that are in and outside of deferral status, some loan relationships may be deemed non-performing. As of September 30, 2021, a single large commercial real estate loan relationship, which operates a hotel, with a carrying balance of $5.0 million, continued to be deemed non-performing after COVID-19 pandemic stresses negatively impacted weak operating performance which occurred prior to the pandemic. Through management's review of the loan relationship, a specific reserve within the allowance for loan losses was allocated as of September 30, 2021. As of September 30, 2021, the customer is currently in compliance with all modified loan terms. No other material COVID-19 impacted loans that are in deferral status have been deemed non-performing at this time. As of September 30, 2021, a total of 236 loans have come out of COVID-19 related deferral status with carrying balances of $85.9 million. All of these loans continue to be performing, except one commercial real estate loan with a carrying balance of $835 thousand and several residential real estate loans with total carrying balances of $964 thousand.

SBA Loan Subsidy Program

Pursuant to the CARES Act, Section 1112, Congress has determined that all existing borrowers under the SBA Section 7(a) program are adversely affected by COVID-19, and are therefore entitled to a subsidy in the form of relief payments. Specifically, the CARES Act provides that the SBA will pay the principal and interest on any existing and current SBA 7(a) loan for a period of nine months. These principal and interest payments will be made by the SBA directly to the SBA 7(a) lender and will begin with the next payment due. The Bancorp is a qualified SBA Section 7(a) lender, and is participating in the Section 1112 program. As of September 30, 2021, the Bancorp had 2 loans eligible for the program, with an aggregate principal amount of $106 thousand. Payments under the program will not constitute new loans for the Bancorp, but simply payments of principal and interest on loans that already exist in the Bancorp's SBA 7(a) loan portfolio and are current on borrower payments.

Financial Condition

During the nine months ended September 30, 2021, total assets increased by $113.6 million (7.6%), with interest-earning assets increasing by $110.6 million (7.9%). At September 30, 2021, interest-earning assets totaled $1.5 billion compared to $1.4 billion at December 31, 2020. Earning assets represented 93.7% of total assets at September 30, 2021 and 93.5% of total assets at December 31, 2020. The increase in total assets and interest earning assets for the nine months was primarily the result of increased cash balances related to strong core deposit growth.

Loans receivable totaled $956.4 million at September 30, 2021, compared to $965.1 million at December 31, 2020. The loan portfolio, which is the Bancorp's largest asset, is the primary source of both interest and fee income. The Bancorp's lending strategy emphasizes quality loan growth, product diversification, and competitive and profitable pricing. The Bancorp continues to review its loan pipelines and credit product specifications in connection with the effects on economic activity and employment stemming from the COVID-19 global pandemic. As a result of this review, management believes the Bancorp's loan portfolio and current pipelines are well-positioned to withstand the current effects of the pandemic and address the needs of the Bancorp's customers.

The Bancorp's end-of-period loan balances were as follows:

(Dollars in thousands)	September 30, 2021 (unaudited) Balance	% Loans	December 31, 2020 Balance	% Loans
Residential real estate	$ 268,798	28.3%	$ 286,048	29.8%
Home equity	35,652	3.7%	39,233	4.1%
Commercial real estate	309,905	32.6%	298,257	31.0%
Construction and land development	110,289	11.6%	93,562	9.7%
Multifamily	56,869	6.0%	50,571	5.3%
Farmland	205	0.0%	215	0.0%
Commercial business	125,922	13.2%	158,140	16.4%
Consumer	650	0.1%	1,025	0.1%
Manufactured homes	32,857	3.5%	24,232	2.5%
Government	9,841	1.0%	10,142	1.1%
Loans receivable	$ 950,988	100.0%	$ 961,425	100.0%
Adjustable rate loans / loans receivable	$ 534,482	56.2%	$ 491,860	51.2%

	September 30, 2021 (unaudited)	December 31, 2020
Loans receivable to total assets	59.4%	64.5%
Loans receivable to earning assets	63.4%	69.0%
Loans receivable to total deposits	67.6%	73.8%

The Bancorp is primarily a portfolio lender. Mortgage banking activities historically have been limited to the sale of fixed rate mortgage loans with contractual maturities greater than 15 years. These loans are identified as held for sale when originated and sold, on a loan-by-loan basis, in the secondary market. The Bancorp will also retain fixed rate mortgage loans with a contractual maturity greater than 15 years on a limited basis. During the nine months ended September 30, 2021, the Bancorp originated $120.1 million in new fixed rate mortgage loans for sale, compared to $171.2 million during the nine months ended September 30, 2020. The decrease in originations of these fixed rate mortgage loans is due to significant refinance activity in the prior year due to the low interest rate environment. Net gains realized from the mortgage loan sales totaled $4.4 million for the nine months ended September 30, 2021, compared to $6.0 million for the nine months ended September 30, 2020. At September 30, 2021, the Bancorp had $3.9 million in loans that were classified as held for sale, compared to $11.3 million at December 31, 2020.

Non-performing loans include those loans that are 90 days or more past due and those loans that have been placed on non-accrual status. At September 30, 2021, non-performing loans that remained accruing and more than 90 days past due include six commercial business loans totaling $2.2 million, two residential real estate loans totaling $186 thousand, one commercial real estate loan totaling $55 thousand, and one home equity loan totaling $30 thousand. The Bancorp will at times leave notes accruing, despite being over 90 days past due, for short periods of time when management has reason to believe payments are in process of being received.

The Bancorp's nonperforming loans are summarized below:

(Dollars in thousands)

Loan Segment	September 30, 2021	December 31, 2020
Residential real estate	$ 3,761	$ 6,470
Home equity	478	505
Commercial real estate	6,318	5,827
Construction and land development	-	20
Multifamily	394	504
Farmland	-	-
Commercial business	2,592	1,039
Consumer	-	-
Manufactured homes	-	-
Government	-	-
Total	$ 13,543	$ 14,365
Nonperforming loans to total loans	1.42%	1.49%
Nonperforming loans to total assets	0.84%	0.96%

Substandard loans include potential problem loans, where information about possible credit issues or other conditions causes management to question the ability of such borrowers to comply with loan covenants or repayment terms. No loans were internally classified as doubtful or loss at September 30, 2021 or December 31, 2020.

The Bancorp's substandard loans are summarized below:

(Dollars in thousands)

Loan Segment	September 30, 2021	December 31, 2020
Residential real estate	$ 3,726	$ 6,387
Home equity	464	495
Commercial real estate	8,063	8,180
Construction and land development	-	-
Multifamily	394	504
Farmland	-	-
Commercial business	711	1,061
Consumer	-	-
Manufactured homes	-	-
Government	-	-
Total	$ 13,358	$ 16,627

In addition to identifying and monitoring non-performing and other classified loans, management maintains a list of special mention loans. Special mention loans represent loans management is closely monitoring due to one or more factors that may cause the loan to become classified as substandard.

The Bancorp's special mention loans are summarized below:

(Dollars in thousands)

Loan Segment	September 30, 2021	December 31, 2020
Residential real estate	$ 3,282	$ 3,539
Home equity	616	761
Commercial real estate	13,615	11,983
Construction and land development	3,643	3,652
Multifamily	253	1,408
Farmland	-	-
Commercial business	1,407	1,341
Consumer	-	-
Manufactured homes	60	-
Government	-	-
Total	$ 22,876	$ 22,684

A loan is considered impaired when, based on current information and events, it is probable that a borrower will be unable to pay all amounts due according to the contractual terms of the loan agreement. Typically, management does not individually classify smaller-balance homogeneous loans, such as residential mortgages or consumer loans, as impaired, unless they are troubled debt restructurings.

Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date. Purchased loans with evidence of credit quality deterioration since origination are considered purchased credit impaired loans. Expected future cash flows at the purchase date in excess of the fair value of loans are recorded as interest income over the life of the loans if the timing and amount of the future cash flows is reasonably estimable (“accretable yield”). The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference and represents probable losses in the portfolio. In determining the acquisition date fair value of purchased credit impaired loans, and in subsequent accounting, the Bancorp aggregates these purchased loans into pools of loans by common risk characteristics, such as credit risk rating and loan type. Subsequent to the purchase date, increases in cash flows over those expected at the purchase date are recognized as interest income prospectively. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses.

The Bancorp's impaired loans, including purchased credit impaired loans, are summarized below:

(Dollars in thousands)

Loan Segment	September 30, 2021	December 31, 2020
Residential real estate	$ 1,601	$ 2,165
Home equity	297	353
Commercial real estate	7,021	6,341
Construction and land development	-	-
Multifamily	577	716
Farmland	-	-
Commercial business	1,933	2,246
Consumer	-	-
Manufactured homes	-	-
Government	-	-
Total	$ 11,429	$ 11,821

At times, the Bancorp will modify the terms of a loan to forego a portion of interest or principal or reduce the interest rate on the loan to a rate materially less than market rates, or materially extend the maturity date of a loan as part of a troubled debt restructuring. The valuation basis for the Bancorp's troubled debt restructurings is based on the present value of expected future cash flows; unless consistent cash flows are not present, then the fair value of the collateral securing the loan is the basis for valuation.

The Bancorp's troubled debt restructured loans are summarized below:

(Dollars in thousands)

Loan Segment	September 30, 2021	December 31, 2020
Residential real estate	$ 276	$ 614
Home equity	99	187
Commercial real estate	1,592	872
Construction and land development	-	-
Multifamily	-	-
Farmland	-	-
Commercial business	688	448
Consumer	-	-
Manufactured homes	-	-
Government	-	-
Total	$ 2,655	$ 2,121

The decrease in nonperforming loans as of September 30, 2021, is the due to the removal from nonaccrual status for various residential real estate loans totaling $2,816 thousand which was offset by the addition of six commercial business customers with loans totaling $2,244 thousand to the 90 days or more past due loans. The decrease in substandard loans as of September 30, 2021, is the result of the removal of various residential real estate loans totaling $2,579 thousand. The increase in special mention loans as of September 30, 2021, is due to the addition of four commercial real estate customers with loans totaling $3,048 thousand, which was offset by the movement of one multifamily customer with loans totaling $1,072 thousand to a pass rating. one commercial real estate customer with loans totaling $835 thousand to substandard, and one commercial real estate customer with loans totaling $189 thousand to a pass rating. The decrease in impaired loans as of September 30, 2021, is the due primarily to the removal of six commercial business customers with loans totaling $445 thousand due to pay off or liquidation of collateral.

At September 30, 2021, management is of the opinion that there are no loans, except certain of those discussed above or as part of credit risk impacts of COVID-19, where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which will imminently result in such loans being classified as past due, non-accrual or a troubled debt restructure. Management does not presently anticipate that any of the non-performing loans or classified loans would materially affect future operations, liquidity or capital resources.

The allowance for loan losses (ALL) is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses, and decreased by charge-offs net of recoveries. A loan is charged-off against the allowance by management as a loss when deemed uncollectible, although collection efforts continue and future recoveries may occur. The determination of the amounts of the ALL and provisions for loan losses is based on management's current judgments about the credit quality of the loan portfolio with consideration given to all known relevant internal and external factors that affect loan collectability as of the reporting date. The appropriateness of the current period provision and the overall adequacy of the ALL are determined through a disciplined and consistently applied quarterly process that reviews the Bancorp's current credit risk within the loan portfolio and identifies the required allowance for loan losses given the current risk estimates.

The Bancorp's provision for loan losses for the nine months ended are summarized below:
(Dollars in thousands)

Loan Segment	September 30, 2021	September 30, 2020
Residential real estate	$ 250	$ 58
Home equity	99	(11)
Commercial real estate	946	694
Construction and land development	483	91
Multifamily	161	21
Farmland	-	-
Commercial business	(647)	1,045
Consumer	1	(10)
Manufactured homes	-	-
Government	-	(17)
Total	$ 1,293	$ 1,871

The Bancorp's charge-off and recovery information is summarized below:
(Dollars in thousands)

	(unaudited) For nine months ending September 30, 2021		
Loan Segment	Charge-off	Recoveries	Net Charge-offs
Residential real estate	$ (32)	$ 46	$ 14
Home equity	(1)	-	(1)
Commercial real estate	-	-	-
Construction and land development	-	-	-
Multifamily	-	-	-
Farmland	-	-	-
Commercial business	-	25	25
Consumer	(21)	6	(15)
Manufactured homes	-	-	-
Government	-	-	-
Total	$ (54)	$ 77	$ 23

The Bancorp's charge-off and recovery information is summarized below:
(Dollars in thousands)

	(unaudited) For nine months ending September 30, 2020		
Loan Segment	Charge-off	Recoveries	Net Charge-offs
Residential real estate	$ (2)	$ 15	$ 13
Home equity	-	-	-
Commercial real estate	(80)	-	(80)
Construction and land development	(17)	-	(17)
Multifamily	-	-	-
Farmland	-	-	-
Commercial business	(78)	17	(61)
Consumer	(22)	11	(11)
Manufactured homes	-	-	
Government	-	-	-
Total	$ (199)	$ 43	$ (156)

The ALL provisions take into consideration management's current judgments about the credit quality of the loan portfolio, loan portfolio balances, changes in the portfolio mix and local economic conditions. In determining the provision for loan losses for the current period, management has considered risks associated with the local economy, changes in loan balances and mix, and asset quality.

In addition, management considers reserves that are not part of the ALL that have been established from acquisition activity. The Bancorp acquired loans for which there was evidence of credit quality deterioration since origination and it was determined that it was probable that the Bancorp would be unable to collect all contractually required principal and interest payments. At September 30, 2021, total purchased credit impaired loans reserves totaled $1.3 million compared to $2.1 million at December 31, 2020. Additionally, the Bancorp has acquired loans where there was not evidence of credit quality deterioration since origination and has marked these loans to their fair values. As part of the fair value of loans receivable, a net fair value discount was established for loans acquired of $1.2 million at September 30, 2021, compared to $2.0 million at December 31, 2020. Details on these fair value marks and the additional reserves created can be found in Note 5, Loans Receivable.

The Bancorp's allowance to total loans and non-performing loans are summarized below:

(Dollars in thousands)	September 30, 2021	December 31, 2020
Allowance for loan losses	$ 13,774	$ 12,458
Total loans	$ 956,352	$ 961,425
Non-performing loans	$ 13,543	$ 14,365
ALL-to-total loans	1.44%	1.30%
ALL-to-non-performing loans (coverage ratio)	101.7%	86.7%

The September 30, 2021, balance in the ALL account is considered adequate by management after evaluation of the loan portfolio, past experience, current economic and market conditions, and additional reserves from acquisition accounting as described in the immediately preceding paragraph. While management may periodically allocate portions of the allowance for specific problem loans, the whole allowance is available for any loan charge offs that occur. The allocation of the ALL reflects performance and growth trends within the various loan categories, as well as consideration of the facts and circumstances that affect the repayment of individual loans, and loans which have been pooled as of the evaluation date, with particular attention given to non-performing loans and loans which have been classified as substandard, doubtful or loss. Management has allocated reserves to both performing and non-performing loans based on current information available.

At September 30, 2021, foreclosed real estate totaled $81 thousand, which was comprised of two properties, compared to $538 thousand and ten properties at December 31, 2020. Net gains from the sale of foreclosed real estate totaled $27 thousand for the nine months ended September 30, 2021. At the end of September 2021, all of the Bancorp's foreclosed real estate is located within its primary market area.

The primary objective of the Bancorp's investment portfolio is to provide for the liquidity needs of the Bancorp and to contribute to profitability by providing a stable flow of dependable earnings. Funds are generally invested in federal funds, interest bearing balances in other financial institutions, U.S. government securities, federal agency obligations, obligations of state and local municipalities and corporate securities. The securities portfolio, all of which is designated as available-for-sale, totaled $531.0 million at September 30, 2021, compared to $410.7 million at December 31, 2020, an increase of $120.3 million (29.3%). The increase in the securities portfolio during the year is a result of investment in the security portfolio. At September 30, 2021, the securities portfolio represented 35.2% of interest-earning assets and 33.0% of total assets compared to 29.4% of interest-earning assets and 27.4% of total assets at December 31, 2020.

The Bancorp's end-of-period investment portfolio and other short-term investments and stock balances were as follows:

(Dollars in thousands)	September 30, 2021 (unaudited)		December 31, 2020	
	Balance	% Securities	Balance	% Securities
Money market fund	$ -	0.0%	$ 52,941	12.9%
U.S. government sponsored entities	10,761	2.0%	7,860	1.9%
U.S. treasury securities	401	0.1%	-	0.0%
Collateralized mortgage obligations and residential mortgage-backed securities	198,485	37.4%	154,736	37.7%
Municipal securities	320,352	60.3%	194,203	47.3%
Collateralized debt obligations	1,011	0.2%	929	0.2%
Total securities available-for-sale	$ 531,010	100.0%	$ 410,669	100.0%

(Dollars in thousands)	September 30, 2021 (unaudited) Balance	December 31, 2020 Balance	YTD Change $	YTD Change %
Interest bearing deposits in other financial institutions	$ 12,132	$ 5,908	$ 6,224	105.3%
Fed funds sold	1,918	-	1,918	100.0%
Certificates of deposit in other financial institutions	977	1,897	(920)	-48.5%
Federal Home Loan Bank stock	3,247	3,918	(671)	-17.1%

The net increase in interest bearing deposits in other financial institutions and fed funds sold is primarily the result of deposit growth.

Deposits are a fundamental and cost-effective source of funds for lending and other investment purposes. The Bancorp offers a variety of products designed to attract and retain customers, with the primary focus on building and expanding relationships.

The Bancorp's end-of-period deposit portfolio balances were as follows:

(Dollars in thousands)	September 30, 2021 (unaudited) Balance	December 31, 2020 Balance	YTD Change $	YTD Change %
Checking	$ 602,951	$ 516,487	$ 86,464	16.7%
Savings	284,681	254,108	30,573	12.0%
Money market	254,671	246,916	7,755	3.1%
Certificates of deposit	263,897	284,828	(20,931)	-7.3%
Total deposits	$ 1,406,200	$ 1,302,339	$ 103,861	8.0%

The overall increase in total deposits is primarily a result of management's sales efforts along with customer preferences for competitively priced short-term liquid investments.

The Bancorp's borrowed funds are primarily used to fund asset growth not supported by deposit generation. The Bancorp's end-of-period borrowing balances were as follows:

(Dollars in thousands)	September 30, 2021 (unaudited) Balance	December 31, 2020 Balance	YTD Change $	YTD Change %
Repurchase agreements	$ 23,844	$ 13,711	$ 10,133	73.9%
Borrowed funds	-	6,149	(6,149)	-100.0%
Total borrowed funds	$ 23,844	$ 19,860	$ 3,984	20.1%

Repurchase agreements increased as part of normal account fluctuations within that product line. The decrease in borrowings was the result of paydowns on the Bancorp's outstanding borrowed funds.

Liquidity and Capital Resources

For the Bancorp, liquidity management refers to the ability to generate sufficient cash to fund current loan demand, meet deposit withdrawals, and pay dividends and operating expenses. Because profit and liquidity are often conflicting objectives, management attempts to maximize the Bank's net interest margin by making adequate, but not excessive, liquidity provisions. Furthermore, funds are managed so that future profits will not be significantly impacted as funding costs increase.

Changes in the liquidity position result from operating, investing and financing activities. Cash flows from operating activities are generally the cash effects of transactions and other events that enter into the determination of net income. The primary investing activities include loan originations, loan repayments, investments in interest bearing balances in other financial institutions, and the purchase, sale, and maturity of investment securities. Financing activities focus almost entirely on the generation of customer deposits. In addition, the Bancorp utilizes borrowings (i.e., repurchase agreements, FHLB advances and federal funds purchased) as a source of funds.

During the nine months ended September 30, 2021, cash and cash equivalents increased by $11.8 million compared to a $37.2 million increase for the nine months ended September 30, 2020. The primary sources of cash and cash equivalents were the sale loans originated for sale, proceeds from the maturity and paydown of securities, proceeds from the sale of securities, growth of deposits, and proceeds from the maturity and paydown of loans receivable. The primary uses of cash and cash equivalents were origination of loans for sale and purchase of securities. Cash provided by operating activities totaled $16.6 million for the nine months ended September 30, 2021, compared to cash provided of $19.3 million for the nine month period ended September 30, 2020. Cash provided from operating activities was primarily a result of net income and sale of loans originated for sale, offset by loans originated for sale. Cash outflows from investing activities totaled $109.2 million for the current period, compared to cash outflows of $110.7 million for the nine months ended September 30, 2020. Cash outflows from investing activities for the current nine months were primarily related to the purchase of securities, offset against proceeds from sales of securities, and proceeds from maturities and paydowns of securities and loans. Cash provided from financing activities totaled $104.5 million during the current period compared to net cash provided of $128.6 million for the nine months ended September 30, 2020. The cash inflows from financing activities were primarily a result of net change in deposits and change in other borrowed funds, offset against repayment of FHLB advances and payment of quarterly dividends. On a cash basis, the Bancorp paid dividends on common stock of $3.2 million for the nine months ended September 30, 2021, and $3.2 million for the nine months ended September 30, 2020.

At September 30, 2021, outstanding commitments to fund loans totaled $219.9 million. Approximately 52.1% of the commitments were at variable rates. Standby letters of credit, which are conditional commitments issued by the Bancorp to guarantee the performance of a customer to a third party, totaled $11.2 million at September 30, 2021. Management believes that the Bancorp has sufficient cash flow and borrowing capacity to fund all outstanding commitments and letters of credit, while maintaining proper levels of liquidity.

Management strongly believes that maintaining a high level of capital enhances safety and soundness. During the nine months ended September 30, 2021, stockholders' equity increased by $880 thousand (0.6%). During the nine months ended September 30, 2021, stockholders’ equity was primarily increased by net income of $11.7 million. Decreasing stockholders’ equity was decreased unrealized gains on available securities of $7.8 million and the declaration of $3.2 million in cash dividends. On April 24, 2014 the Bancorp’s Board of Directors authorized a stock repurchase program to repurchase up to 50,000 shares of the Bancorp’s outstanding common stock, from time to time and subject to market conditions, on the open market or in privately negotiated transactions. The stock repurchase program does not expire and is only limited by the number of shares that can be purchased. The stock repurchase program will be reviewed annually by the Board of Directors. No shares were repurchased under the program during the first nine months of 2021 or 2020. During 2021, 13,493 restricted stock shares vested under the Incentive Plan outlined in Note 9 of the financial statements, of which 3,115 of these shares were withheld in the form of a net surrender to cover the withholding tax obligations of the vesting employees. The repurchase of these surrendered shares is considered outside of the scope of the formal stock repurchase program.

The Bancorp is subject to risk-based capital guidelines adopted by the Board of Governors of the Federal Reserve System (the “FRB”), and the Bank is subject to risk-based capital guidelines adopted by the FDIC. As applied to the Bancorp and the Bank, the FRB and FDIC capital requirements are substantially the same. These regulations divide capital into multiple tiers. The first tier (Common Equity Tier 1 Capital) includes common shareholders’ equity, after deductions for various items including goodwill and certain other intangible assets, and after certain other adjustments. Common Equity Tier 1 Capital also includes accumulated other comprehensive income (for organizations that do not make opt-out elections). The next tier (Tier 1 Capital) is comprised of Common Equity Tier 1 Capital plus other qualifying capital instruments such as perpetual noncumulative preferred stock and junior subordinated debt issued to trusts, and other adjustments. The third tier (Tier 2 Capital) includes instruments such as subordinated debt that have a minimum original maturity of at least five years and are subordinated to the claims of depositors and general creditors, total capital minority interest not included in Tier 1 Capital, and limited amounts of the allowance for loan losses, less applicable regulatory adjustments and deductions. The Bancorp and the Bank are required to maintain a Common Equity Tier 1 Capital ratio of 4.5%, a Tier 1 Capital ratio of 6%, and a Total Capital ratio (comprised of Tier 1 Capital plus Tier 2 Capital) of 8%. In addition, the capital regulations provide for a minimum leverage ratio (Tier 1 capital to adjusted average assets) of 4%.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions by the institution and certain discretionary bonus payments to management if an institution does not hold a “capital conservation buffer” consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement was phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increased each year until the buffer requirement became fully effective on January 1, 2019.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 required the FRB to set minimum capital levels for bank holding companies that are as stringent as those required for insured depository subsidiaries. However, under the FRB’s “Small Bank Holding Company” exemption from consolidated bank holding company capital requirements, bank holding companies and savings and loan holding companies with less than $3 billion in consolidated assets, such as the Bancorp, are exempt from consolidated regulatory capital requirements, unless the FRB determines otherwise in particular cases.

During the nine months ended September 30, 2021, the Bancorp's and Bank's regulatory capital ratios continued to be negatively impacted by regulatory requirements regarding collateralized debt obligations. The regulatory requirements state that for collateralized debt obligations that have been downgraded below investment grade by the rating agencies, increased risk based asset weightings are required. The Bancorp currently holds pooled trust preferred securities with a cost basis of $2.2 million. These investments currently have ratings that are below investment grade. As a result, approximately $9.2 million of risk-based assets are generated by the trust preferred securities in the Bancorp's and Bank's total risk based capital calculation.

The following table shows that, at September 30, 2021, and December 31, 2020, the Bancorp's capital exceeded all applicable regulatory capital requirements. The dollar amounts are in millions.

(Dollars in millions)

	Actual		Capital Adequacy Purposes		Corrective Action Regulations	
At June 30, 2021	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1 capital to risk-weighted assets	$ 133.8	13.1%	$ 45.9	4.5%	N/A	N/A
Tier 1 capital to risk-weighted assets	$ 133.8	13.1%	$ 61.3	6.0%	N/A	N/A
Total capital to risk-weighted assets	$ 146.6	14.4%	$ 81.7	8.0%	N/A	N/A
Tier 1 capital to adjusted average assets	$ 133.8	8.4%	$ 64.6	4.0%	N/A	N/A

(Dollars in millions)

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
At December 31, 2020	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1 capital to risk-weighted assets	$ 124.0	12.7%	$ 43.9	4.5%	N/A	N/A
Tier 1 capital to risk-weighted assets	$ 124.0	12.7%	$ 58.6	6.0%	N/A	N/A
Total capital to risk-weighted assets	$ 136.2	14.0%	$ 78.1	8.0%	N/A	N/A
Tier 1 capital to adjusted average assets	$ 125.3	8.4%	$ 59.2	4.0%	N/A	N/A

In addition, the following table shows that, at September 30, 2021, and December 31, 2020, the Bank's capital exceeded all applicable regulatory capital requirements. The dollar amounts are in millions.

(Dollars in millions)

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
At June 30, 2021	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1 capital to risk-weighted assets	$ 130.5	12.8%	$ 45.7	4.5%	$ 66.1	6.5%
Tier 1 capital to risk-weighted assets	$ 130.5	12.8%	$ 61.0	6.0%	$ 81.3	8.0%
Total capital to risk-weighted assets	$ 143.2	14.1%	$ 81.3	8.0%	$ 101.6	10.0%
Tier 1 capital to adjusted average assets	$ 130.5	8.2%	$ 64.4	4.0%	$ 80.5	5.0%

(Dollars in millions)

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
At December 31, 2020	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1 capital to risk-weighted assets	$ 122.0	12.6%	$ 43.8	4.5%	$ 63.2	6.5%
Tier 1 capital to risk-weighted assets	$ 122.0	12.6%	$ 58.4	6.0%	$ 77.8	8.0%
Total capital to risk-weighted assets	$ 134.2	13.8%	$ 77.8	8.0%	$ 97.3	10.0%
Tier 1 capital to adjusted average assets	$ 122.0	8.3%	$ 59.1	4.0%	$ 73.9	5.0%

The Bancorp's ability to pay dividends to its shareholders is entirely dependent upon the Bank's ability to pay dividends to the Bancorp. Under Indiana law, the Bank may pay dividends from its undivided profits (generally, earnings less losses, bad debts, taxes and other operating expenses) as is considered expedient by the Bank's Board of Directors. However, the Bank must obtain the approval of the Indiana Department of Financial Institutions (DFI) if the total of all dividends declared by the Bank during the current year, including the proposed dividend, would exceed the sum of retained net income for the year to date plus its retained net income for the previous two years. For this purpose, "retained net income," means net income as calculated for call report purposes, less all dividends declared for the applicable period. An exemption from DFI approval would require that the Bank have been assigned a composite uniform financial institutions rating of 1 or 2 as a result of the most recent federal or state examination; the proposed dividend would not result in a Tier 1 leverage ratio below 7.5%; and that the Bank not be subject to any corrective action, supervisory order, supervisory agreement, or board approved operating agreement. The aggregate amount of dividends that may be declared by the Bank in 2021, without the need for qualifying for an exemption or prior DFI approval, is its 2021 net profits plus $4.7 million. Moreover, the FDIC and the FRB may prohibit the payment of dividends if it determines that the payment of dividends would constitute an unsafe or unsound practice in light of the financial condition of the Bank. On August 27, 2021, the Board of Directors of the Bancorp declared a third quarter dividend of $0.31 per share. The Bancorp's third quarter dividend was paid to shareholders on October 4, 2021.

Results of Operations - Comparison of the Quarter Ended September 30, 2021 to the Quarter Ended September 30, 2020

For the quarter ended September 30, 2021, the Bancorp reported net income of $3.5 million, compared to net income of $4.7 million for the quarter ended September 30, 2020, a decrease of $1.1 million (24.5%). For the quarter, the ROA was 0.87%, compared to 1.27% for the quarter ended September 30, 2020. The ROE was 8.90% for the quarter ended September 30, 2021, compared to 12.83% for the quarter ended September 30, 2020.

Net interest income for the quarter ended September 30, 2021 was $12.2 million, an increase of $512 thousand (4.4%), compared to $11.7 million for the quarter ended September 30, 2020. The weighted-average yield on interest-earning assets was 3.36% for the quarter ended September 30, 2021, compared to 3.75% for the quarter ended September 30, 2020. The weighted-average cost of funds for the quarter ended September 30, 2021 was 0.13% compared to 0.35% for the quarter ended September 30, 2020. The impact of the 3.36% return on interest earning assets and the 0.13% cost of funds resulted in an interest rate spread of 3.23% for the current quarter, a decrease from the 3.40% spread for the quarter ended September 30, 2020. The net interest margin on earning assets was 3.24% for the quarter ended September 30, 2021 and 3.41% for the quarter ended September 30, 2020. On a tax equivalent basis, the Bancorp's net interest margin was 3.46% for the quarter ended September 30, 2021, compared to 3.58% for the quarter ended September 30, 2020. Comparing the net interest margin on a tax equivalent basis more accurately compares the returns on tax-exempt loans and securities to those on taxable interest-earning assets.

Information relating to the average consolidated balance sheet and the yield on average earning assets and cost of average liabilities for the periods indicated are in the following table. Dividing the related interest, on an annualized basis, by the average balance of assets or liabilities drives the disclosed rates. Average balances are derived from daily balances.

Quarter-to-Date
(Dollars in thousands)
(unaudited)

	Average Balances, Interest, and Rates					
	September 30, 2021			September 30, 2020		
	Average Balance	Interest	Rate (%)	Average Balance	Interest	Rate (%)
ASSETS						
Interest bearing deposits in other financial institutions	$ 53,786	$ 12	0.09	$ 72,920	$ 22	0.12
Federal funds sold	1,112	-	-	719	7	3.89
Certificates of deposit in other financial institutions	1,262	6	1.90	1,877	10	2.13
Securities available-for-sale	486,993	2,363	1.94	315,090	1,506	1.91
Loans receivable	960,274	10,270	4.28	975,794	11,263	4.62
Federal Home Loan Bank stock	3,247	15	1.85	3,918	28	2.86
Total interest earning assets	1,506,674	$ 12,666	3.36	1,370,318	$ 12,836	3.75
Cash and non-interest bearing deposits in other financial institutions	41,378			15,814		
Allowance for loan losses	(13,688)			(9,917)		
Other noninterest bearing assets	97,290			98,879		
Total assets	$ 1,631,654			$ 1,475,094		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Total deposits	$ 1,436,125	$ 452	0.13	$ 1,282,698	$ 1,050	0.33
Repurchase agreements	20,970	13	0.25	16,246	15	0.37
Borrowed funds	41	1	9.76	12,000	83	2.77
Total interest bearing liabilities	1,457,136	$ 466	0.13	1,310,944	$ 1,148	0.35
Other noninterest bearing liabilities	15,508			18,034		
Total liabilities	1,472,644			1,328,978		
Total stockholders' equity	159,010			146,116		
Total liabilities and stockholders' equity	$ 1,631,654			$ 1,475,094		

The decrease in interest earning asset income for the three months ended September 30, 2021, compared to the three months ended September 30, 2020, is primarily related to continued decreased reinvestment rates in 2021 for loans, securities, and excess cash balances, as a result of the Federal Reserve cuts occurring in March 2020. The decrease in interest bearing liability expense is primarily the result of the Bancorp adjusting deposit and repurchase agreement pricing to align with the current interest rate cycle.

The following table shows the change in noninterest income for the quarter ending September 30, 2021, and September 30, 2020.

(Dollars in thousands)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Three Months Ended $ Change	Three Months Ended % Change
Noninterest income:				
Gain on sale of loans held-for-sale, net	$ 1,229	$ 2,420	$ (1,191)	-49.2%
Fees and service charges	1,473	1,473	0	0.0%
Wealth management operations	604	537	67	12.5%
Gain on sale of securities, net	590	197	393	199.5%
Increase in cash value of bank owned life insurance	180	177	3	1.7%
Gain on sale of foreclosed real estate, net	0	24	(24)	-100.0%
Other	70	27	43	159.3%
Total noninterest income	$ 4,146	$ 4,855	$ (709)	-14.6%

The decrease in gain on sale of loans is the result of significant refinance activity in the prior year due to the economic and rate environment, which resulted in more loans originated and sold. The increase in fees and service charges is primarily the result of changes in customer usage of bank services as our customer base continues to recover from the pandemic.

The following table shows the change in noninterest expense for the quarter ending September 30, 2021, and September 30, 2020.

(Dollars in thousands)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Three Months Ended $ Change	Three Months Ended % Change
Noninterest expense:				
Compensation and benefits	$ 6,042	$ 5,517	$ 525	9.5%
Occupancy and equipment	1,380	1,150	230	20.0%
Data processing	872	583	289	49.6%
Marketing	334	183	151	82.5%
Federal deposit insurance premiums	236	209	27	12.9%
Other	3,537	2,393	1,144	47.8%
Total noninterest expense	$ 12,401	$ 10,035	$ 2,366	23.6%

The increase in compensation and benefits is primarily the result of management's continued focus on talent management and retention. The increase in occupancy and equipment is primarily related to facilities improvement efforts aimed at enhancing technology and efficiency. The increase in data processing expense is primarily the result of increased system utilization. The increase in marketing expense is the result of increased marketing and rebranding initiatives. The increase in other operating expenses is primarily the result of investments in strategic initiatives focusing on technological improvements and growth of the organization. The Bancorp's efficiency ratio was 75.87% for the quarter ended September 30, 2021, compared to 60.66% for the quarter ended September 30, 2020. The increase in the efficiency ratio is the result of lower noninterest income and higher noninterest expense. The efficiency ratio is determined by dividing total noninterest expense by the sum of net interest income and total noninterest income for the period.

Income tax expenses for the quarter ended September 30, 2021, totaled $268 thousand, compared to income tax expense of $972 thousand for the quarter ended September 30, 2020, an decrease of $704 thousand (72.4%). The combined effective federal and state tax rates for the Bancorp was 7.0% for the quarter ended September 30, 2021, compared to 17.2% for the quarter ended September 30, 2020. The decrease in the effective tax rate for the quarter ended September 30, 2021, is the result of higher tax preferred income relative to earnings.

Results of Operations - Comparison of the Nine Months Ended September 30, 2021 to the Nine Months Ended September 30, 2020

For the nine months ended September 30, 2021, the Bancorp reported net income of $11.7 million, compared to net income of $12.7 million for the nine months ended September 30, 2020, a decrease of $999 thousand (7.9%). For the nine months ended, the ROA was 0.98%, compared to 1.20% for the nine months ended September 30, 2020. The ROE was 9.96% for the nine months ended September 30, 2021, compared to 11.96% for the nine months ended September 30, 2020.

Net interest income for the nine months ended September 30, 2021, was $36.1 million, an increase of $2.3 million (6.9%), compared to $33.8 million for the nine months ended September 30, 2020. The weighted-average yield on interest-earning assets was 3.44% for the nine months ended September 30, 2021, compared to 3.96% for the nine months ended September 30, 2020. The weighted-average cost of funds for the nine months ended September 30, 2021, was 0.16% compared to 0.52% for the nine months ended September 30, 2020. The impact of the 3.44% return on interest earning assets and the 0.16% cost of funds resulted in an interest rate spread of 3.28% for the current nine months, which is a decrease from the spread of 3.44% as of September 30, 2020. The net interest margin on earning assets was 3.29% for the nine months ended September 30, 2021, and 3.46% for the nine months ended September 30, 2020. On a tax equivalent basis, the Bancorp's net interest margin was 3.49% for the nine months ended September 30, 2021, compared to 3.62% for the nine months ended September 30, 2020. Comparing the net interest margin on a tax equivalent basis more accurately compares the returns on tax-exempt loans and securities to those on taxable interest-earning assets.

Information relating to the average consolidated balance sheet and the yield on average earning assets and cost of average liabilities for the periods indicated are in the following table. Dividing the related interest, on an annualized basis, by the average balance of assets or liabilities drives the disclosed rates. Average balances are derived from daily balances.

Year-to-Date
(Dollars in thousands)

	Average Balances, Interest, and Rates					
	September 30, 2021			September 30, 2020		
	Average Balance	Interest	Rate (%)	Average Balance	Interest	Rate (%)
ASSETS						
Interest bearing deposits in other financial institutions	$ 53,774	$ 33	0.08	$ 42,025	$ 91	0.29
Federal funds sold	1,064	-	-	2,716	92	4.52
Certificates of deposit in other financial institutions	1,443	21	1.94	1,859	35	2.51
Securities available-for-sale	435,119	6,428	1.97	295,073	4,708	2.13
Loans receivable	970,740	31,291	4.30	954,985	33,589	4.69
Federal Home Loan Bank stock	3,535	55	2.07	3,916	95	3.23
Total interest earning assets	1,465,675	$ 37,828	3.44	1,300,574	$ 38,610	3.96
Cash and non-interest bearing deposits in other financial institutions	37,186			17,530		
Allowance for loan losses	(13,205)			(9,508)		
Other noninterest bearing assets	97,674			98,611		
Total assets	$ 1,587,330			$ 1,407,207		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Total deposits	$ 1,395,883	$ 1,652	0.16	$ 1,222,497	$ 4,494	0.49
Repurchase agreements	17,458	35	0.27	13,959	72	0.69
Borrowed funds	992	23	3.09	13,386	270	2.69
Total interest bearing liabilities	1,414,333	$ 1,710	0.16	1,249,842	$ 4,836	0.52
Other noninterest bearing liabilities	17,052			16,270		
Total liabilities	1,431,385			1,266,112		
Total stockholders' equity	155,945			141,095		
Total liabilities and stockholders' equity	$ 1,587,330			$ 1,407,207		

The decrease in interest earning asset income for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, is primarily related to continued decreased reinvestment rates in 2021 for loans, securities, and excess cash balances, as a result of the Federal Reserve cuts occurring in March 2020. The decrease in interest bearing liability expense is primarily the result of the Bancorp adjusting deposit and repurchase agreement pricing to align with the current interest rate cycle.

The following table shows the change in noninterest income for the nine months ending September 30, 2021, and September 30, 2020.

(Dollars in thousands)	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020	Nine Months Ended $ Change	Nine Months Ended % Change
Noninterest income:				
Gain on sale of loans held-for-sale, net	$ 4,394	$ 6,037	$ (1,643)	-27.2%
Fees and service charges	4,010	3,673	337	9.2%
Wealth management operations	1,787	1,605	182	11.3%
Gain on sale of securities, net	1,276	1,374	(98)	-7.1%
Increase in cash value of bank owned life insurance	537	534	3	0.6%
Gain on sale of foreclosed real estate, net	27	127	(100)	-78.7%
Other	108	97	11	11.3%
Total noninterest income	$ 12,139	$ 13,447	$ (1,308)	-9.7%

The decrease in gain on sale of loans is the result of significant refinance activity in the prior year due to the economic and rate environment, which resulted in more loans originated and sold. The increase in fees and service charges is primarily the result of changes in customer usage of bank services as our community recovers from the pandemic. The increase in wealth management income is the result of the Bancorp's continued focus on expanding its wealth management line of business.

The following table shows the change in noninterest expense for the nine months ending September 30, 2021, and September 30, 2020.

(Dollars in thousands) *(unaudited)*	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020	Nine Months Ended $ Change	Nine Months Ended % Change
Noninterest expense:				
Compensation and benefits	17,624	16,447	$ 1,177	7.2%
Occupancy and equipment	4,076	3,854	222	5.8%
Data processing	1,997	1,671	326	19.5%
Marketing	728	571	157	27.5%
Federal deposit insurance premiums	620	564	56	9.9%
Other	8,859	7,033	1,826	26.0%
Total noninterest expense	$ 33,904	$ 30,140	$ 3,764	12.5%

The increase in compensation and benefits is primarily the result of management's continued focus on talent management and retention. The increase in occupancy and equipment is primarily related to facilities improvement efforts aimed at enhancing technology and efficiency. The increase in data processing expense is primarily the result of increased system utilization. The increase in marketing expense is the result of increased marketing and rebranding initiatives. The increase in other operating expenses is primarily the result of investments in strategic initiatives focusing on technological improvements and the growth of the organization. The Bancorp's efficiency ratio was 70.26% for the nine months ended September 30, 2021, compared to 63.83% for the nine months ended September 30, 2020. The increase in the efficiency ratio is the result of lower noninterest income and higher noninterest expense. The efficiency ratio is determined by dividing total noninterest expense by the sum of net interest income and total noninterest income for the period.

Income tax expenses for the nine months ended September 30, 2021, totaled $1.4 million, compared to income tax expense of $2.6 million for the nine months ended September 30, 2020, a decrease of $1.2 million (45.0%). The combined effective federal and state tax rates for the Bancorp was 10.8% for the nine months ended September 30, 2021, compared to 16.8% for the nine months ended September 30, 2020. The Bancorp's lower current period effective tax rate is a result of an increase in tax preferred income in relation to income.

Non-GAAP Financial Measures

This filing includes certain financial measures that are identified as non-GAAP. However, certain non-GAAP performance measures are used by management to evaluate and measure the Bancorp's performance. Although these non-GAAP financial measures are frequently used by investors to evaluate a financial institution, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP. This supplemental information should not be considered in isolation or as a substitute for the related GAAP measures.

Critical Accounting Policies

Critical accounting policies are those accounting policies that management believes are most important to the portrayal of the Bancorp's financial condition and that require management's most difficult, subjective or complex judgments. The Bancorp's critical accounting policies from December 31, 2020, remain unchanged.

Forward-Looking Statements

Statements contained in this report that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions are also intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act. The Bancorp cautions readers that forward-looking statements, including without limitation those relating to the Bancorp's future business prospects, merger and acquisition activities, interest income and expense, net income, liquidity, and capital needs are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements, due to, among other things, factors identified in this report, including those identified in the Bancorp's 2020 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

The Bancorp maintains disclosure controls and procedures (as defined in Sections 13a – 15(e) and 15d – 15(e)) of regulations promulgated under the Securities Exchange Act of 1934 (the "Exchange Act") that are designed to ensure that information required to be disclosed by the Bancorp in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by the Bancorp in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Bancorp's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. The Bancorp's Chief Executive Officer and Chief Financial Officer evaluate the effectiveness of the Bancorp's disclosure controls and procedures as of the end of each quarter. Based on that evaluation as of September 30, 2021, the Bancorp's Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures were effective as of that date in ensuring that information required to be disclosed by the Bancorp under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

(b) Changes in Internal Control Over Financial Reporting.

There was no change in the Bancorp's internal control over financial reporting identified in connection with the Bancorp's evaluation of controls that occurred during the nine months ended September 30, 2021, that has materially affected, or is reasonably likely to materially affect, the Bancorp's internal control over financial reporting.

PART II - Other Information

Item 1. Legal Proceedings

The Bancorp and its subsidiaries, from time to time, are involved in legal proceedings in the ordinary course of business against its debtors and are defendants in legal actions arising from normal business activities. Management, after consultation with legal counsel believes that the ultimate liabilities, if any, resulting from these actions will not have a material adverse effect on the financial position of the Bank or on the consolidated financial position of the Bancorp.

Item 1A. Risk Factors

Not Applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On April 24, 2014 the Bancorp's Board of Directors authorized a stock repurchase program to repurchase up to 50,000 shares of the Bancorp's outstanding common stock, from time to time and subject to market conditions, on the open market or in privately negotiated transactions. The stock repurchase program does not expire and is only limited by the number of shares that can be purchased. The stock repurchase program will be reviewed annually by the Board of Directors. No shares were repurchased during the nine months ended September 30, 2021 under the stock repurchase program.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Program(1)
January 1, 2021 – January 31, 2021	-	N/A	-	48,828
February 1, 2021 – February 28, 2021	-	N/A	-	48,828
March 1, 2021 – March 31, 2021	-	N/A	-	48,828
April 1, 2021 – April 30, 2021	-	N/A	-	48,828
May 1, 2021 – May 31, 2021	-	N/A	-	48,828
June 1, 2021 – June 30, 2021	-	N/A	-	48,828
July 1, 2021 – July 31, 2021	-	N/A	-	48,828
August 1, 2021 – August 31, 2021	-	N/A	-	48,828
September 1, 2021 – September 30, 2021	-	N/A	-	48,828
	-	N/A	-	48,828

(1) The stock repurchase program was announced on April 24, 2014, whereby the Bancorp is authorized to repurchase up to 50,000 shares of the Bancorp's common stock outstanding. There is no express expiration date for this program.

Item 3. Defaults Upon Senior Securities

There are no matters reportable under this item.

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

Item 6. Exhibits

Exhibit Number	Description
2.1	Agreement and Plan of Merger by and among Finward Bancorp and Royal Financial, Inc. dated July 28, 2021 (incorporated herein by reference to Exhibit 2.1 of the Bancorp's Form 8-K dated July 29, 2021).
10.1	Voting Agreement dated July 28, 2021 (incorporated herein by reference to Exhibit 10.1 to the Bancorp's Form 8-K dated July 29, 2021).
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certifications.
101	The following materials from the Bancorp's Form 10-Q for the quarterly period ended September 30, 2021, formatted in an Inline XBRL Interactive Data File: (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Changes in Stockholders' Equity; (iv) Consolidated Statement of Comprehensive Income; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements, with detailed tagging of notes and financial statement schedules.
104	Cover Page Interactive Data File (embedded within the Inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FINWARD BANCORP

Date: November 9, 2021

/s/ Benjamin J. Bochnowski
Benjamin J. Bochnowski
President and Chief Executive Officer

Date: November 9, 2021

/s/ Peymon S. Torabi
Peymon S. Torabi
Executive Vice President, Chief Financial Officer and Treasurer

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Benjamin J. Bochnowski, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Finward Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d – 15 (f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2021

/s/ Benjamin J. Bochnowski
Benjamin J. Bochnowski
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Peymon S. Torabi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Finward Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d – 15 (f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2021

/s/ Peymon S. Torabi
Peymon S. Torabi
Executive Vice President, Chief Financial
Officer and Treasurer

Exhibit 32.1

CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Finward Bancorp (the "Company") for the quarterly period ended September 30, 2021, as filed with the Securities and Exchange Commission (the "Report"), each of Benjamin J. Bochnowski, President and Chief Executive Officer of the Company, and Peymon S. Torabi, Executive Vice President, Chief Financial Officer and Treasurer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2021

/s/ Benjamin J. Bochnowski
Benjamin J. Bochnowski
President and Chief Executive Officer

/s/ Peymon S. Torabi
Peymon S. Torabi
Executive Vice President, Chief Financial Officer and Treasurer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Finward Bancorp and will be retained by Finward Bancorp and furnished to the Securities and Exchange Commission or its staff upon request.