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 June 30, 2022 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 4,297,900 shares of the registrant's Common Stock, without par value, outstanding at August 15, 2022.

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Finward Bancorp
Consolidated Balance Sheet

(Dollars in thousands)	June 30, 2022 (unaudited)	December 31, 2021
ASSETS		
Cash and non-interest bearing deposits in other financial institutions	$ 20,844	$ 12,725
Interest bearing deposits in other financial institutions	55,602	19,987
Federal funds sold	2,856	464
Total cash and cash equivalents	79,302	33,176
Certificates of deposit in other financial institutions	1,482	1,709
Securities available-for-sale	400,466	526,889
Loans held-for-sale	1,525	4,987
Loans receivable, net of deferred fees and costs	1,474,381	966,720
Less: allowance for loan losses	(13,406)	(13,343)
Net loans receivable	1,460,975	953,377
Federal Home Loan Bank stock	3,038	3,247
Accrued interest receivable	6,892	5,444
Premises and equipment	45,985	31,385
Cash value of bank owned life insurance	31,571	31,440
Goodwill	22,615	11,109
Other intangible assets	5,588	3,126
Other assets	42,046	14,854
Total assets	$ 2,101,485	$ 1,620,743
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 370,567	$ 295,294
Interest bearing	1,546,648	1,138,907
Total	1,917,215	1,434,201
Repurchase agreements	24,536	14,581
Accrued expenses and other liabilities	23,080	15,346
Total liabilities	1,964,831	1,464,128
Commitments and contingencies		
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: June 30, 2022 - 4,296,949 December 31, 2021 - 3,480,701		
Additional paid-in capital	68,623	30,430
Accumulated other comprehensive (loss) income	(57,781)	4,276
Retained earnings	125,812	121,909
Total stockholders' equity	136,654	156,615
Total liabilities and stockholders' equity	$ 2,101,485	$ 1,620,743

See accompanying notes to consolidated financial statements.

Finward Bancorp
Consolidated Statements of Income
(unaudited)

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
(Unaudited)	2022	2021	2022	2021
Interest income:				
Loans receivable	$ 15,221	$ 10,275	$ 28,507	$ 21,021
Securities	2,469	2,144	5,066	4,105
Other interest earning assets	50	16	61	36
Total interest income	17,740	12,435	33,634	25,162
Interest expense:				
Deposits	389	549	726	1,200
Repurchase agreements	26	12	42	22
Borrowed funds	27	2	33	22
Total interest expense	442	563	801	1,244
Net interest income	17,298	11,872	32,833	23,918
Provision for loan losses	-	576	-	1,154
Net interest income after provision for loan losses	17,298	11,296	32,833	22,764
Noninterest income:				
Fees and service charges	1,560	1,471	2,864	2,537
Wealth management operations	588	576	1,183	1,183
Gain on sale of loans held-for-sale, net	291	1,116	898	3,165
Gain on sale of securities, net	258	269	639	686
Increase in cash value of bank owned life insurance	193	188	445	357
Gain (loss) on sale of foreclosed real estate	-	36	-	27
Other	6	24	11	38
Total noninterest income	2,896	3,680	6,040	7,993
Noninterest expense:				
Compensation and benefits	7,538	5,897	14,905	11,582
Data processing	1,246	597	4,300	1,125
Occupancy and equipment	1,729	1,324	3,229	2,696
Marketing	385	195	1,036	394
Federal deposit insurance premiums	380	204	599	384
Other	3,898	2,793	7,376	5,322
Total noninterest expense	15,176	11,010	31,445	21,503
Income before income tax expenses	5,018	3,966	7,428	9,254
Income tax expenses	587	395	862	1,140
Net income	$ 4,431	$ 3,571	$ 6,566	$ 8,114
Earnings per common share:				
Basic	$ 1.04	$ 1.03	$ 1.60	$ 2.33
Diluted	$ 1.04	$ 1.03	$ 1.59	$ 2.33
Dividends declared per common share	$ 0.31	$ 0.31	$ 0.62	$ 0.62

See accompanying notes to consolidated financial statements.

Finward Bancorp
Consolidated Statements of Comprehensive (Loss) Income
(unaudited)

(Dollars in thousands)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Net income	$ 4,431	$ 3,571	$ 6,566	$ 8,114
Net change in net unrealized gains and losses on securities available-for-sale:				
Unrealized (loss) gain arising during the period	(30,521)	5,624	(77,910)	(2,137)
Less: reclassification adjustment for gains included in net income	(258)	(269)	(639)	(686)
Net securities (loss) gain during the period	(30,779)	5,355	(78,549)	(2,823)
Tax effect	6,460	(1,126)	16,492	591
Other comprehensive (loss) gain, net of tax	(24,319)	4,229	(62,057)	(2,232)
Comprehensive (loss) gain, net of tax	(19,888)	7,800	(55,491)	5,882

See accompanying notes to consolidated financial statements.

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

(Dollars in thousands, except per share data)	*Common Stock*	*Additional Paid-in Capital*	*Accumulated Other Comprehensive (Loss)/Income*	*Retained Earnings*	*Total Equity*
Balance at January 1, 2021	$ -	$ 29,987	$ 10,441	$ 111,261	$ 151,689
Net income	-	-	-	4,543	4,543
Other comprehensive loss, net of tax			(6,461)	-	(6,461)
Net surrender value of 1,711 restricted stock awards	-	(68)	-	-	(68)
Stock-based compensation expense		146			146
Cash dividends, $0.31 per share	-	-	-	(1,079)	(1,079)
Balance at March 31, 2021	$ -	$ 30,065	$ 3,980	$ 114,725	$ 148,770
Net income	-	-	-	3,571	3,571
Other comprehensive loss, net of tax			4,229	-	4,229
Net surrender value of 1,404 restricted stock awards	-	(63)	-	-	(63)
Stock-based compensation expense		139			139
Cash dividends, $0.31 per share	-	-	-	(1,077)	(1,077)
Balance at June 30, 2021	$ -	$ 30,141	$ 8,209	$ 117,219	$ 155,569
Balance at January 1, 2022	$ -	$ 30,430	$ 4,276	$ 121,909	$ 156,615
Net income	-	-	-	2,135	2,135
Other comprehensive loss, net of tax			(37,738)		(37,738)
Net surrender value of 2,336 restricted stock awards		(115)			(115)
Stock-based compensation expense	-	169	-	-	169
Issuance of 795,423 shares at $47.75 per share, for acquisition of Royal Financial, Inc		37,902			37,902
Cash dividends, $0.31 per share	-	-	-	(1,331)	(1,331)
Balance at March 31, 2022	$ -	$ 68,386	$ (33,462)	$ 122,713	$ 157,637
Net income	-	-	-	4,431	4,431
Other comprehensive loss, net of tax			(24,319)		(24,319)
Net surrender value of 113 restricted stock awards		(5)			(5)
Stock-based compensation expense	-	163	-	-	163
Other adjustments	-	79	-	-	79
Cash dividends, $0.31 per share	-	-	-	(1,332)	(1,332)
Balance at June 30, 2022	$ -	$ 68,623	$ (57,781)	$ 125,812	$ 136,654

See accompanying notes to consolidated financial statements.

Finward Bancorp
Consolidated Statements of Cash Flows
(unaudited)

(Dollars in thousands)	Six months ended June 30, 2022	Six months ended June 30, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 6,566	$ 8,114
Adjustments to reconcile net income to net cash provided by operating activities:		
Origination of loans for sale	(29,179)	(85,903)
Sale of loans originated for sale	33,506	94,163
Depreciation and amortization, net of accretion	3,121	2,154
Stock based compensation expense	332	285
Gain on sale of securities, net	(639)	(686)
Gain on sale of loans held-for-sale, net	(966)	(3,293)
Gain on sale of foreclosed real estate	-	(27)
Gain on cash value of bank owned life insurance	(445)	(357)
Loss on derivatives	68	128
Provision for loan losses	-	1,154
Net change in:		
Interest receivable	388	(90)
Other assets	(3,038)	1,728
Accrued expenses and other liabilities	(3,824)	(3,723)
Net cash provided by operating activities	5,890	13,647
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of certificates of deposit in other financial institutions	472	426
Proceeds from maturities and pay downs of securities available-for-sale	15,596	43,322
Proceeds from sales of securities available-for-sale	43,775	19,290
Purchase of securities available-for-sale	(11,713)	(119,075)
Proceeds from bank owned life insurance	314	-
Net change in loans receivable	(54,178)	1,660
Proceeds of Federal Home Loan Bank Stock	1,512	671
Purchase of loans receivable	(2,663)	(5,978)
Purchase of premises and equipment, net	(2,081)	(470)
Proceeds from sale of foreclosed real estate	-	197
Cash and cash equivalents from acquisition activity, net	33,799	-
Net cash provided by (used in) investing activities	24,833	(59,957)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in deposits	7,978	92,757
Repayment of FHLB advances	-	(6,000)
Net surrender value of restricted stock awards	(120)	(131)
Change in repurchase agreements and other borrowed funds	9,955	10,539
Dividends paid	(2,410)	(2,152)
Net cash (used in) provided by financing activities	15,403	95,013
Net change in cash and cash equivalents	46,126	48,703
Cash and cash equivalents at beginning of period	33,176	19,922
Cash and cash equivalents at end of period	$ 79,302	$ 68,625
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 781	$ 1,262
Income taxes	1,157	2,020
Acquisition activity:		
Fair value of assets acquired, including cash and cash equivalents	$ 528,321	$ -
Value of goodwill and other intangible assets	14,726	-
Fair value of liabilities assumed	486,341	-
Cash paid for acquisition	18,725	-
Issuance of common stock for acquisition	37,981	-
Noncash activities:		
Dividends declared not paid	1,332	1,077
Securities purchased not settled	-	9,764

See accompanying notes to 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 “FNWD”), 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, 1683 Real Estate LLC, 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 June 30, 2022, and December 31, 2021, and the consolidated statements of income, comprehensive income (loss), and changes in stockholders’ equity for the three and six months ended June 30, 2022, and 2021, and consolidated statements of cash flows for the six months ended June 30, 2022, and 2021. The income reported for the six month period ended June 30, 2022, is not necessarily indicative of the results to be expected for the full year.

The Notes to the Consolidated Financial Statements appearing in Finward Bancorp’s Annual Report on Form 10-K (2021 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, 2021 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. These reclassifications had no effect on net income.

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 - Acquisition Activity

On January 31, 2022, Finward Bancorp (“Finward”) completed its previously announced acquisition of Royal Financial, Inc., a Delaware corporation (“RYFL”), pursuant to an Agreement and Plan of Merger dated July 28, 2021 (the “Merger Agreement”) between Finward and RYFL. The stockholders of both Finward and RYFL approved the Merger Agreement at the respective stockholder meetings of the companies held on December 13, 2021. Pursuant to the Merger Agreement, RYFL merged with and into Finward, with Finward as the surviving corporation (the “Merger”), and Royal Savings Bank, an Illinois state-chartered savings bank and wholly-owned subsidiary of RYFL, merged with and into Peoples Bank, the wholly-owned Indiana state-chartered commercial bank subsidiary of Finward, with Peoples Bank as the surviving bank.

Under the terms of the merger agreement, RYFL stockholders who owned 101 or more shares of RYFL common stock were permitted to elect to receive either 0.4609 shares of Finward common stock or $ 20.14 in cash, or a combination of both, for each share of RYFL common stock owned, subject to proration and allocation provisions such that 65% of the shares of RYFL common stock outstanding immediately prior to the closing of the merger were converted into the right to receive shares of Finward common stock and the remaining 35% of the outstanding RYFL shares were converted into the right to receive cash. Stockholders holding less than 101 shares of RYFL common stock received fixed consideration of $ 20.14 in cash per share and no stock consideration.

As a result of RYFL stockholder stock and cash elections and the related allocation and proration provisions of the merger agreement, Finward issued 795,423 shares of its common stock and paid cash consideration of approximately $ 18.7 million in the Merger. Based on the January 28, 2022, closing price of $47.75 per share of Finward common stock, the transaction had an implied valuation of approximately $ 56.7 million. In connection with the acquisition, Robert W. Youman, was appointed to the boards of directors of Finward and Peoples Bank effective as of the closing of the Merger. RYFL had a home office and eight branch offices in Cook County and DuPage County, Illinois. The acquisition has further expanded the Bank's banking center network in Cook County and DuPage County, Illinois.

Under the acquisition method of accounting, the total purchase price is allocated to net tangible and intangible assets based on their current estimated fair values on the date of the acquisition. Based on the valuations of the fair value of tangible and intangible assets acquired and liabilities assumed, which are based on estimates and assumptions that are subject to change, the final purchase price for the RYFL acquisition is allocated as follows:

ASSETS			**LIABILITIES**		
Cash and due from banks	$	52,524	Deposits		
Investment securities, available for sale		-	Non-interest bearing	$	32,095
Certificate of deposit in other financial institutions		245	NOW accounts		63,639
			Savings and money market		184,149
Total Loans		450,757	Certificates of deposits		195,153
			Total Deposits		475,036
Premises and equipment, net		13,896			
FHLB stock		1,303	Interest payable		75
Goodwill		11,506	Other liabilities		11,228
Core deposit intangible		3,220			
Interest receivable		1,836			
Other assets		7,758			
Total assets purchased	$	543,045			
Common shares issued		37,981			
Cash paid		18,725			
Total purchase price	$	56,706	Total liabilities assumed	$	486,339

During the second quarter of 2022, an adjustment was made to the carrying value of other assets of $ 189 thousand, due to the valuation of prepaids brought over in the acquisition, and premises and equipment, net, of $48 thousand, due to a correction in the valuation of buildings, in addition, a correction was made to the valuation of shares issued increasing the value by $79 thousand. The resulting impact of these changes was a decrease to the goodwill balance related to the RYFL acquisition of $158 thousand.

Final estimates of fair value on the date of acquisition have not been finalized yet. Prior to the end of the one-year measurement period for finalizing the purchase price allocation, if information becomes available which would indicate adjustments are required to the purchase price allocation, such adjustments will be included in the purchase price allocation prospectively. If any adjustments are made to the preliminary assumptions (provisional amounts), disclosures will be made in the notes to the financial statements of the amounts recorded in the current period earnings by line item that have been recorded in previous reporting periods as if the adjustments to the provisional amounts had been recognized as of the acquisition date.

Goodwill of approximately $11.5 million, which is the excess of the acquisition consideration over the fair value of net assets acquired, is expected to be recorded in the RYFL acquisition and is the result of expected operational synergies and other factors. This goodwill is not expected to be deductible for tax purposes. To the extent that management revises any of the above fair value adjustments as a result of its continuing evaluation, the amount of goodwill recorded in the RYFL acquisition will change.

Gross loans acquired during the RYFL transaction totaled $ 456.7 million. As of the six months ended June 30, 2022, the remaining outstanding principal of loans directly related to the RYFL acquisition total $425.8 million, of which $8.1 million are expected to be uncollectable.

The following pro-forma and earnings (unaudited) of the combined company are presented as if the RYFL merger had occurred on January 1, 2022 and January 1, 2021:

(in thousands)	For the three months ended June 30, 2022	For the three months ended June 30, 2021	For the six months ended June 30, 2022	For the six months ended June 30, 2021
Selected Financial Data				
Interest income	$ 17,740	$ 17,263	$ 35,329	$ 34,654
Interest expense	(442)	(998)	(902)	(2,189)
Recovery of (provision for) loan losses	-	(816)	-	(1,094)
Non-interest income	2,896	3,902	6,179	8,418
Non-interest expense (1)	(15,176)	(13,831)	(29,573)	(26,776)
Income before provision for income taxes	5,018	5,520	11,033	13,013
Income tax expense	(587)	(639)	(1,619)	(1,812)
Net income	$ 4,431	$ 4,881	$ 9,414	$ 11,201
Earnings per common share:				
Basic	$ 1.04	$ 1.40	$ 2.29	$ 3.22
Diluted	$ 1.04	$ 1.40	$ 2.28	$ 3.22

(1) Excludes $2.9 million in pre-tax merger expenses for the six months ended June 30, 2022.

For the six months ended June 30, 2022, the Bancorp has recorded $2.9 million in pre-tax one-time merger expenses related to the RYFL acquisition, and these expenses have been allocated to the following non-interest expense line items within the income statement:

(in thousands) Noninterest expense:	Six months ended June 30, 2022
Compensation and benefits	$ 132
Data processing	1,929
Marketing	135
Other	656
Period merger expense	$ 2,852

Note 4 - 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:

June 30, 2022 (Dollars in thousands)	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government sponsored entities	$ 8,883	$ -	$ (949)	$ 7,934
U.S. treasury securities	594	-	-	594
Collateralized mortgage obligations and residential mortgage-backed securities	171,286	2	(21,227)	150,061
Municipal securities	290,675	20	(49,848)	240,847
Collateralized debt obligations	2,173	-	(1,143)	1,030
Total securities available-for-sale	$ 473,611	$ 22	$ (73,167)	$ 400,466

December 31, 2021 (Dollars in thousands)	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government sponsored entities	$ 8,883	$ -	$ (214)	$ 8,669
U.S. treasury securities	400	-	-	400
Collateralized mortgage obligations and residential mortgage-backed securities	187,279	961	(3,539)	184,701
Municipal securities	322,750	9,904	(527)	332,127
Collateralized debt obligations	2,173	-	(1,181)	992
Total securities available-for-sale	$ 521,485	$ 10,865	$ (5,461)	$ 526,889

The cost basis and estimated fair value of available-for-sale debt securities at June 30, 2022, 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	
June 30, 2022	Cost Basis	Estimated Fair Value
Due in one year or less	$ 494	$ 495
Due from one to five years	1,954	1,956
Due from five to ten years	26,832	24,869
Due over ten years	273,045	223,085
Collateralized mortgage obligations and residential mortgage-backed securities	171,286	150,061
Total	$ 473,611	$ 400,466

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

	(Dollars in thousands) June 30, 2022	June 30, 2021
Proceeds	$ 27,539	$ 12,386
Gross gains	295	289
Gross losses	(37)	(20)

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

	(Dollars in thousands) June 30, 2022	June 30, 2021
Proceeds	$ 43,775	$ 19,290
Gross gains	692	706
Gross losses	(53)	(20)

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, 2021	$ 4,276
Current period change	(62,057)
Ending balance, June 30, 2022	$ (57,781)

Securities with market values of approximately $ 236.7 million and $ 39.5 million were pledged as of June 30, 2022 and December 31, 2021, respectively, as collateral for repurchase agreements, public funds, and for other purposes as permitted or required by law.

Securities with gross unrealized losses at June 30, 2022, and December 31, 2021 not recognized in income are as follows:

(Dollars in thousands)	Less than 12 months		12 months or longer		Total		
June 30, 2022	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Percentage of Total Portfolio in Loss Position
U.S. government sponsored entities	$ -	$ -	$ 7,934	$ (949)	$ 7,934	$ (949)	100.0%
Collateralized mortgage obligations and residential mortgage-backed securities	91,051	(11,037)	58,348	(10,190)	149,399	(21,227)	99.6%
Municipal securities	230,567	(48,029)	6,170	(1,819)	236,737	(49,848)	98.3%
Collateralized debt obligations	-	-	1,030	(1,143)	1,030	(1,143)	100.0%
Total temporarily impaired	$ 321,618	$ (59,066)	$ 73,482	$ (14,101)	$ 395,100	$ (73,167)	98.7%
Number of securities		415		41		456	

(Dollars in thousands)	Less than 12 months		12 months or longer		Total		
December 31, 2021	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Percentage of Total Portfolio in Loss Position
U.S. government sponsored entities	$ 8,669	$ (214)	$ -	$ -	$ 8,669	$ (214)	100.0%
Collateralized mortgage obligations and residential mortgage-backed securities	126,373	(3,175)	8,109	(364)	134,482	(3,539)	72.8%
Municipal securities	70,309	(527)	-	-	70,309	(527)	21.2%
Collateralized debt obligations	-	-	992	(1,181)	992	(1,181)	100.0%
Total temporarily impaired	$ 205,351	$ (3,916)	$ 9,101	$ (1,545)	$ 214,452	$ (5,461)	40.7%
Number of securities		133		5		138	

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 5 - 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 are partially 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)

	June 30, 2022	December 31, 2021
Loans secured by real estate:		
Residential real estate	$ 459,151	$ 260,134
Home equity	35,672	34,612
Commercial real estate	420,735	317,145
Construction and land development	153,422	123,822
Multifamily	248,495	61,194
Total loans secured by real estate	1,317,475	796,907
Commercial business	103,649	115,772
Consumer	1,673	582
Manufactured homes	37,693	37,887
Government	8,081	8,991
Loans receivable	1,468,571	960,139
Add (less):		
Net deferred loan origination costs	6,482	6,810
Undisbursed loan funds	(672)	(229)
Loans receivable, net of deferred fees and costs..	$ 1,474,381	$ 966,720

(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 June 30, 2022:					
Allowance for loan losses:					
Residential real estate	$ 2,493	$ -	$ 29	$ 234	$ 2,756
Home equity	354	-	-	19	373
Commercial real estate	5,530	-	-	(3)	5,527
Construction and land development	2,135	-	-	(391)	1,744
Multifamily	889	-	-	239	1,128
Commercial business	1,941	-	7	(140)	1,808
Consumer	45	(27)	10	42	70
Manufactured homes	-	-	-	-	-
Government	-	-	-	-	-
Total	$ 13,387	$ (27)	$ 46	$ -	$ 13,406
The Bancorp's activity in the allowance for loan losses, by loan segment, is summarized below for the three months ended June 30, 2021:					
Allowance for loan losses:					
Residential real estate	$ 2,176	$ -	$ 15	$ 103	$ 2,294
Home equity	309	-	-	62	371
Commercial real estate	5,726	-	-	213	5,939
Construction and land development	1,587	-	-	211	1,798
Multifamily	680	-	-	60	740
Commercial business	2,552	-	11	(89)	2,474
Consumer	17	(11)	1	16	23
Manufactured homes	-	-	-	-	-
Government	-	-	-	-	-
Total	$ 13,047	$ (11)	$ 27	$ 576	$ 13,639
The Bancorp's activity in the allowance for loan losses, by loan segment, is summarized below for the six months ended June 30, 2022:					
Allowance for loan losses:					
Residential real estate	$ 2,480	$ -	$ 50	$ 226	$ 2,756
Home equity	357	-	-	16	373
Commercial real estate	5,515	-	-	12	5,527
Construction and land development	2,119	-	-	(375)	1,744
Multifamily	848	-	-	280	1,128
Commercial business	2,009	-	38	(239)	1,808
Consumer	15	(37)	12	80	70
Manufactured homes	-	-	-	-	-
Government	-	-	-	-	-
Total	$ 13,343	$ (37)	$ 100	$ -	$ 13,406
The Bancorp's activity in the allowance for loan losses, by loan segment, is summarized below for the six months ended June 30, 2021:					
Allowance for loan losses:					
Residential real estate	$ 2,211	$ (4)	$ 25	$ 62	$ 2,294
Home equity	276	(1)	-	96	371
Commercial real estate	5,406	-	-	533	5,939
Construction and land development	1,405	-	-	393	1,798
Multifamily	626	-	-	114	740
Commercial business	2,508	-	19	(53)	2,474
Consumer	26	(17)	5	9	23
Manufactured homes	-	-	-	-	-
Government	-	-	-	-	-
Total	$ 12,458	$ (22)	$ 49	$ 1,154	$ 13,639

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 $ 5.3 million and $5.8 million as of June 30, 2022 and December 31, 2021, respectively, and is included in net deferred loan origination costs.

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 June 30, 2022:						
Residential real estate	$ 31	$ 2,725	$ 459,151	$ 290	$ 2,057	$ 456,804
Home equity	3	370	35,672	21	133	35,518
Commercial real estate	446	5,081	420,735	846	2,970	416,919
Construction and land development	-	1,744	153,422	-	800	152,622
Multifamily	-	1,128	248,495	-	2,940	245,555
Commercial business	251	1,557	103,649	306	1,024	102,319
Consumer	-	70	1,673	-	20	1,653
Manufactured homes	-	-	37,693	-	-	37,693
Government	-	-	8,081	-	-	8,081
Total	$ 731	$ 12,675	$ 1,468,571	$ 1,463	$ 9,944	$ 1,457,164
The Bancorp's allowance for loan losses impairment evaluation and loan receivables are summarized below at December 31, 2021:						
Residential real estate	$ 17	$ 2,463	$ 260,134	$ 755	$ 1,016	$ 258,363
Home equity	4	353	34,612	147	137	34,328
Commercial real estate	386	5,129	317,145	1,600	-	315,545
Construction and land development	-	2,119	123,822	-	-	123,822
Multifamily	-	848	61,194	-	556	60,638
Commercial business	277	1,732	115,772	524	1,073	114,175
Consumer	-	15	582	-	-	582
Manufactured homes	-	-	37,887	-	-	37,887
Government	-	-	8,991	-	-	8,991
Total	$ 684	$ 12,659	$ 960,139	$ 3,026	$ 2,782	$ 954,331

The Bancorp's credit quality indicators are summarized below at June 30, 2022 and December 31, 2021:

	Credit Exposure - Credit Risk Portfolio By Creditworthiness Category			
	June 30, 2022			
(Dollars in thousands)	1-6	7	8	
Loan Segment	Pass	Special mention	Substandard	Total
Residential real estate	$ 451,077	$ 2,055	$ 6,019	$ 459,151
Home equity	34,648	400	624	35,672
Commercial real estate	403,000	10,890	6,845	420,735
Construction and land development	152,622	800	-	153,422
Multifamily	244,053	1,541	2,901	248,495
Commercial business	100,313	3,057	279	103,649
Consumer	1,673	-	-	1,673
Manufactured homes	37,693	-	-	37,693
Government	8,081	-	-	8,081
Total	$ 1,433,160	$ 18,743	$ 16,668	$ 1,468,571

	December 31, 2021			
(Dollars in thousands)	1-6	7	8	
Loan Segment	Pass	Special mention	Substandard	Total
Residential real estate	$ 253,472	$ 2,940	$ 3,722	$ 260,134
Home equity	33,565	415	632	34,612
Commercial real estate	301,572	12,011	3,562	317,145
Construction and land development	120,192	3,630	-	123,822
Multifamily	60,657	153	384	61,194
Commercial business	113,470	1,915	387	115,772
Consumer	582	-	-	582
Manufactured homes	37,828	59	-	37,887
Government	8,991	-	-	8,991
Total	$ 930,329	$ 21,123	$ 8,687	$ 960,139

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.

9 – Doubtful
Such loans have been placed on nonaccrual status and may be heavily dependent upon collateral possessing a value that is difficult to determine or based upon some near-term event which lacks clear certainty. These loans have all of the weaknesses of those classified as Substandard; however, based on existing conditions, these weaknesses make full collection of the principal balance highly improbable.

10 – Loss
Loans that are considered uncollectible and of such little value that continuing to carry them as assets is not warranted.

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 six months ending June 30, 2022, ten residential real estate loans totaling $974 thousand and one home equity loan totaling $7 thousand, were modified to include deferral of principal resulting in troubled debt restructuring classification. No trouble debt restructuring loans had subsequently defaulted during the six months ending June 30, 2022. During the six months ending June 30, 2021, two residential real estate loans to one customer totaling $150 thousand were modified to included deferral of principal and one commercial real estate loan totaling $835 thousand was restructured with a reduced interest rate and extended amortization resulting in troubled debt restructuring classifications. Two residential real estate trouble debt restructuring loans totaling $73 thousand had subsequently defaulted during the six months ending June 30, 2021. 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.

(Dollars in thousands) *(unaudited)*	As of June 30, 2022			For the six months ended June 30, 2022		For the three months ended June 30, 2022	
	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	$ 2,057	$ 4,844	$ -	$ 2,438	$ 155	$ 2,816	$ 125
Home equity	133	253	-	214	13	191	6
Commercial real estate	2,970	3,236	-	2,448	220	3,290	210
Construction and land development	800	1,023	-	573	-	860	-
Multifamily	2,940	3,269	-	2,337	62	3,228	62
Commercial business	1,024	1,024	-	1,159	76	1,136	61
Consumer	20	20	-	14	-	21	-
Manufactured homes	-	-	-	-	-	-	-
Government	-	-	-	-	-	-	-
With an allowance recorded:							
Residential real estate	$ 290	$ 328	$ 31	$ 154	$ 9	$ 188	$ 6
Home equity	21	21	3	21	1	21	-
Commercial real estate	846	847	446	844	-	849	-
Construction and land development	-	-	-	-	-	-	-
Multifamily	-	-	-	-	-	-	-
Commercial business	306	369	251	338	16	311	-
Consumer	-	-	-	-	-	-	-
Manufactured homes	-	-	-	-	-	-	-
Government	-	-	-	-	-	-	-
Total:							
Residential real estate	$ 2,347	$ 5,172	$ 31	$ 2,592	$ 164	$ 3,004	$ 131
Home equity	$ 154	$ 274	$ 3	$ 235	$ 14	$ 212	$ 6
Commercial real estate	$ 3,816	$ 4,083	$ 446	$ 3,292	$ 220	$ 4,139	$ 210
Construction & land development	$ 800	$ 1,023	$ -	$ 573	$ -	$ 860	$ -
Multifamily	$ 2,940	$ 3,269	$ -	$ 2,337	$ 62	$ 3,228	$ 62
Commercial business	$ 1,330	$ 1,393	$ 251	$ 1,497	$ 92	$ 1,447	$ 61
Consumer	$ 20	$ 20	$ -	$ 14	$ -	$ 21	$ -
Manufactured homes	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Government	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(Dollars in thousands)	As of December 31, 2021 Recorded Investment	Unpaid Principal Balance	Related Allowance	For the six months ended June 30, 2021 Average Recorded Investment	Interest Income Recognized	For the three months ended June 30, 2021 Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:							
Residential real estate	$ 1,683	$ 3,017	$ -	$ 1,735	$ 42	$ 1,817	$ 20
Home equity	262	275	-	317	5	341	1
Commercial real estate	765	765	-	1,295	26	1,174	14
Construction & land development	-	-	-	-	-	-	-
Multifamily	556	647	-	670	11	708	6
Commercial business	1,205	1,324	-	1,447	36	1,467	18
Consumer	-	-	-	-	-	-	-
Manufactured homes	-	-	-	-	-	-	-
Government	-	-	-	-	-	-	-
With an allowance recorded:							
Residential real estate	$ 88	$ 88	$ 17	$ 198	$ 5	$ 165	$ -
Home equity	22	22	4	15	-	23	-
Commercial real estate	835	835	386	5,655	113	5,901	63
Construction & land development	-	-	-	-	-	-	-
Multifamily	-	-	-	-	-	-	-
Commercial business	392	392	277	719	22	704	11
Consumer	-	-	-	-	-	-	-
Manufactured homes	-	-	-	-	-	-	-
Government	-	-	-	-	-	-	-
Total:							
Residential real estate	$ 1,771	$ 3,105	$ 17	$ 1,933	$ 47	$ 1,982	$ 20
Home equity	$ 284	$ 297	$ 4	$ 332	$ 5	$ 364	$ 1
Commercial real estate	$ 1,600	$ 1,600	$ 386	$ 6,950	$ 139	$ 7,075	$ 77
Construction & land development	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Multifamily	$ 556	$ 647	$ -	$ 670	$ 11	$ 708	$ 6
Commercial business	$ 1,597	$ 1,716	$ 277	$ 2,166	$ 58	$ 2,171	$ 29
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
June 30, 2022							
Residential real estate	$ 2,137	$ 2,306	$ 3,260	$ 7,703	$ 451,448	$ 459,151	$ 610
Home equity	114	7	527	648	35,024	35,672	-
Commercial real estate	135	1,734	2,477	4,346	416,389	420,735	517
Construction and land development	337	56	-	393	153,029	153,422	-
Multifamily	24	307	109	440	248,055	248,495	-
Commercial business	1,706	1,205	281	3,192	100,457	103,649	81
Consumer	4	-	-	4	1,669	1,673	-
Manufactured homes	230	334	-	564	37,129	37,693	-
Government	-	-	-	-	8,081	8,081	-
Total	$ 4,687	$ 5,949	$ 6,654	$ 17,290	$ 1,451,281	$ 1,468,571	$ 1,208
December 31, 2021							
Residential real estate	$ 2,507	$ 824	$ 2,142	$ 5,473	$ 254,661	$ 260,134	$ 31
Home equity	169	67	565	801	33,811	34,612	34
Commercial real estate	231	1,960	944	3,135	314,010	317,145	91
Construction and land development	5,148	283	-	5,431	118,391	123,822	-
Multifamily	-	-	109	109	61,085	61,194	-
Commercial business	573	1,594	242	2,409	113,363	115,772	49
Consumer	-	3	-	3	579	582	-
Manufactured homes	633	171	-	804	37,083	37,887	-
Government	-	-	-	-	8,991	8,991	-
Total	$ 9,261	$ 4,902	$ 4,002	$ 18,165	$ 941,974	$ 960,139	$ 205

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

(Dollars in thousands)	June 30, 2022	December 31, 2021
Residential real estate	$ 4,975	$ 4,651
Home equity	610	623
Commercial real estate	2,594	940
Construction and land development	-	-
Multifamily	369	455
Commercial business	265	387
Consumer	-	-
Manufactured homes	-	-
Government	-	-
Total	$ 8,813	$ 7,056

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 June 30, 2022, total purchased credit impaired loans with unpaid principal balances totaled $11.9 million with a recorded investment of $ 9.9 million. At December 31, 2021, purchased credit impaired loans with unpaid principal balances totaled $ 4.2 million with a recorded investment of $ 2.8 million.

As part of the fair value of loans receivable, there was a net fair value discount for loans acquired of $ 6.0 million at June 30, 2022, compared to $ 1.1 million at December 31, 2021.

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

(dollars in thousands)	Total
2021	$ 300
2022	440

Accretable yield, or income recorded for the six months ended June 30, is as follows:

(dollars in thousands)	Total
2021	$ 605
2022	547

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

(dollars in thousands)	Total
Remainder 2022	$ 240
2023	665
2024	649
2025	507
2026 and thereafter	3,565
Total	$ 5,958

Note 6 – Intangibles and Acquisition Related Accounting

The Bancorp established a goodwill balance totaling $ 11.5 million with the acquisition of RYFL, and also maintains goodwill balances totaling $ 11.1 million from prior acquisitions. Goodwill totaled $22.6 million and $11.1 million as of June 30, 2022 and December 31, 2021, respectively. During the three months ended June 30, 2022, there was remeasurement of goodwill reducing the balance by $ 158 thousand, see Note 3 – Acquisition Activity for more detail on the remeasurement. 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. There has not been any impairment of goodwill identified or recorded.

In addition to goodwill, a core deposit intangible was established with the acquisition of RYFL and from previous acquisitons. The Bancorp had core deposit intangible balances of $5.6 million and $3.1 million as of June 30, 2022, and December 31, 2021, respectively. The table below summarizes the annual amortization:

The amortization recorded for the three months ended June 30, is as follows:

(dollars in thousands)		Total
2021	$	249
2022	$	410

The amortization recorded for the six months ended June 30, is as follows:

(dollars in thousands)		Total
2021	$	497
2022	$	757

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

(dollars in thousands)		Total
Current year		795
2023		1,522
2024		1,411
2025		688
2026		360
5 years and thereafter		812
Total	$	5,588

For the RYFL acquisition, as part of the fair value of certificates of deposit, a fair value premium was established of $ 1.0 million. Approximately $175 thousand and $304 thousand of amortization was taken as income during the three and six months ended June 30, 2022, respectively. It is estimated amortization to be recorded in future periods is as follows; an additional $237 thousand in 2022, $217 thousand in 2023, $124 thousand in 2024, $72 thousand in 2025, and $55 thousand thereafter.

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 six months ended June 30, 2022, and 2021, are as follows:

(dollars in thousands except per share data)	Three months ended June 30,				Six months ended June 30,			
		2022		2021		2022		2021
Basic earnings per common share:								
Net income as reported	$	4,431	$	3,571	$	6,566	$	8,114
Weighted average common shares outstanding		4,242,559		3,478,392		4,108,579		3,475,017
Basic earnings per common share	$	1.04	$	1.03	$	1.60	$	2.33
Diluted earnings per common share:								
Net income as reported	$	4,431	$	3,571	$	6,566	$	8,114
Weighted average common shares outstanding		4,242,559		3,478,392		4,108,579		3,475,017
Add: Dilutive effect of unvested restricted stock awards		15,944		-		16,316		-
Weighted average common and dilutive potential common shares outstanding		4,258,503		3,478,392		4,124,895		3,475,017
Diluted earnings per common share	$	1.04	$	1.03	$	1.59	$	2.33

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 three months ended June 30, 2022, stock based compensation expense of $163 thousand was recorded, compared to $139 thousand for the three months ended June 30, 2021. For the six months ended June 30, 2022, stock based compensation expense of $332 thousand was recorded, compared to $285 thousand for the six months ended June 30, 2021. It is anticipated that current outstanding unvested awards will result in additional compensation expense of approximately $1.5 million through 2025 with an weighted average life of 2.1 years.

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 the six months ended June 30, 2022, follows:

Non-vested Shares	*Shares*	*Weighted Average Grant Date Fair Value*
Non-vested at January 1, 2022	44,235	$ 42.33
Granted	22,891	46.42
Vested	(11,158)	41.63
Forfeited	(1,587)	44.17
Non-vested at June 30, 2022	54,381	$ 44.14

Note 10 – **Change in Accounting Principles**

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 as of January 1, 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.

In October 2021, the FASB issued ASU 2021-08 related to accounting for acquired revenue contracts with customers in a business combination. The amendments in this update address diversity in practice and inconsistency related to recognition of an acquired contract liability and the effect of payment terms on subsequent revenue recognition for the acquirer. This update is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. We plan to adopt this pronouncement for our fiscal year beginning January 1, 2023, and we do not expect it to have a material effect on our consolidated financial statements.

In March 2022, the FASB issued ASU 2022-01 related to the portfolio layer method of hedge accounting. The amendments in this update clarify the accounting and promote consistency in reporting for hedges where the portfolio layer method is applied. This update is effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. As we currently do not have items accounted for under the portfolio layer method of hedge accounting, we do not expect the update to have an effect on our consolidated financial statements.

In March 2022, the FASB issued ASU 2022-02, Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures, which addresses and amends areas identified by the FASB as part of its post-implementation review of the accounting standard that introduced the CECL model. The amendments eliminate the accounting guidance for troubled debt restructurings by companies that have adopted the CECL model and enhance the disclosure requirements for loan refinancings and restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require disclosure of current-period gross writeoffs for financing receivables and net investment in leases by year of origination in the vintage disclosures. ASU 2022-02 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years for entities that have adopted the CECL accounting standard. Early adoption, however, is permitted if an entity has adopted the CECL accounting standard. The Bancorp is assessing ASU 2022-02 and its impact on its accounting and disclosures.

In June 2022, the FASB issued ASU No. 2022-03 “Fair Value Measurements (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions.” These amendments clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. This guidance is effective for public business entities for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2023. Early adoption is permitted. The Bancorp has assessed ASU 2022-03 and does not expect it to have a material impact on its accounting and disclosures.

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:

June 30, 2022

		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	$ 92,565	Other assets	$ 6,696	Other liabilties	$ 6,696
Interest rate lock commitments	3,965	Other assets	73	N/A	-
Total	$ 96,530		$ 6,769		$ 6,696

December 31, 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	$ 94,154	Other assets	$ 2,686	Other liabilties	$ 2,686
Interest rate lock commitments	7,837	Other assets	141	N/A	-
Total	$ 101,991		$ 2,827		$ 2,686

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

		Six Months Ended June 30,	
(Dollars in thousands)	Statement of Income Classification	2022	2021
Interest rate swap contracts	Fees and service charges	$ -	$ 218
Interest rate lock commitments	Gain on sale of loans held-for-sale, net	(68)	(128)
Total		$ (68)	$ 90

		Three Months Ended June 30,	
(Dollars in thousands)	Statement of Income Classification	2022	2021
Interest rate swap contracts	Fees and service charges	$ -	$ 231
Interest rate lock commitments	Gain on sale of loans held-for-sale, net	(93)	(151)
Total		$ (93)	$ 80

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

				Gross Amounts not Offset in the Statement of Financial Condition		
(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	Financial Instruments	Cash Collateral Received	Net Amount
June 30, 2022						
Interest rate swap contracts	$ 6,696	$ -	$ 6,696	$ -	$ -	$ 6,696
Interest rate lock commitments	73	-	73	-	-	73
Total	$ 6,769	$ -	$ 6,769	$ -	$ -	$ 6,769

				Gross Amounts not Offset in the Statement of Financial Condition		
(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	Financial Instruments	Cash Collateral Received	Net Amount
December 31, 2021						
Interest rate swap contracts	$ 2,686	$ -	$ 2,686	$ -	$ -	$ 2,686
Interest rate lock commitments	141	-	141	-	-	141
Total	$ 2,827	$ -	$ 2,827	$ -	$ -	$ 2,827

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

(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
June 30, 2022						
Interest rate swap contracts	$ 6,696	$ -	$ 6,696	$ -	$ 3,930	$ 2,766
Total	$ 6,696	$ -	$ 6,696	$ -	$ 3,930	$ 2,766

(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, 2021						
Interest rate swap contracts	$ 2,686	$ -	$ 2,686	$ -	$ 3,930	$ (1,244)
Total	$ 2,686	$ -	$ 2,686	$ -	$ 3,930	$ (1,244)

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.

In addition to the impairment evaluation noted above, the Bancorp's management utilizes a specialist to perform an other-than-temporary impairment analysis for each of its pooled collateralized debt obligations. The specialist analysis is performed annually in December, or when management deems necessary, and utilizes analytical models used to project future cash flows for the pooled collateralized debt obligations 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 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 collateralized debt obligation. 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 collateralized debt obligations and no additional impairment was taken at December 31, 2021. In addition, the collateralized debt obligation portfolio was reviewed in accordance with our quarterly impairment evaluation, as described in the preceding paragraph, noting no additional impairment was taken at June 30, 2022.

The table below shows the credit loss roll forward on a year-to-date basis for the Bancorp's pooled collateralized debt obligations that have been classified with other-than-temporary impairment:

	(Dollars in thousands) *Collateralized debt obligations* *other-than-temporary impairment*
Ending balance, December 31, 2021	$ 173
Additions not previously recognized	-
Ending balance, June 30, 2022	$ 173

At June 30, 2022, collateralized debt obligations with a cost basis of $ 2.2 million continue to be in "payment in kind" status. These collateralized debt obligations classified as "payment in kind" are a result of not receiving the scheduled quarterly interest payments. For these collateralized debt obligations 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 six months ended June 30, 2022. Assets measured at fair value on a recurring basis are summarized below:

(Dollars in thousands)	Estimated Fair Value	(Dollars in thousands) Fair Value Measurements at June 30, 2022 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Interest rate swap contracts	$ 6,696	$ -	$ 6,696	$ -
Interest rate lock commitments	73	-	73	-
Available-for-sale debt securities:				
U.S. government sponsored entities	7,934	-	7,934	-
U.S. treasury securities	594	-	594	-
Collateralized mortgage obligations and residential mortgage-backed securities	150,061	-	150,061	-
Municipal securities	240,847	-	240,847	-
Collateralized debt obligations	1,030	-	-	1,030
Total securities available-for-sale	$ 400,466	$ -	$ 399,436	$ 1,030
Liabilities:				
Interest rate swap contracts	$ 6,696	$ -	$ 6,696	$ -

(Dollars in thousands)	Estimated Fair Value	(Dollars in thousands) Fair Value Measurements at December 31, 2021 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Interest rate swap contracts	$ 2,686	$ -	$ 2,686	$ -
Interest rate lock commitments	141	-	141	-
Available-for-sale debt securities:				
U.S. government sponsored entities	8,669	-	8,669	-
U.S. treasury securities	400	-	400	-
Collateralized mortgage obligations and residential mortgage-backed securities	184,701	-	184,701	-
Municipal securities	332,127	-	332,127	-
Collateralized debt obligations	992	-	-	992
Total securities available-for-sale	$ 526,889	$ -	$ 525,897	$ 992
Liabilities:				
Interest rate swap contracts	$ 2,686	$ -	$ 2,686	$ -

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, 2021	$ 929
Principal payments	(9)
Total unrealized gains, included in other comprehensive income	50
Ending balance, June 30, 2021	$ 970
Beginning balance, January 1, 2022	$ 992
Principal payments	-
Total unrealized gains, included in other comprehensive income	38
Ending balance, June 30, 2022	$ 1,030

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 June 30, 2022 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 1,309	$ -	$ -	$ 1,309

(Dollars in thousands)	Estimated Fair Value	(Dollars in thousands) Fair Value Measurements at December 31, 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	$ 896	$ -	$ -	$ 896

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)	June 30, 2022		Estimated Fair Value Measurements at June 30, 2022 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	$ 79,302	$ 79,302	$ 79,302	$ -	$ -
Certificates of deposit in other financial institutions	1,482	1,453	-	1,453	-
Loans held-for-sale	1,525	1,552	-	1,552	-
Loans receivable, net	1,460,975	1,418,593	-	-	1,418,593
Federal Home Loan Bank stock	3,038	3,038	-	3,038	-
Accrued interest receivable	6,892	6,892	-	6,892	-
Financial liabilities:					
Non-interest bearing deposits	370,567	370,567	370,567	-	-
Interest bearing deposits	1,546,648	1,547,211	1,148,252	398,959	-
Repurchase agreements	24,536	24,311	16,273	8,038	-
Accrued interest payable	56	56	-	56	-

(Dollars in thousands)	December 31, 2021		Estimated Fair Value Measurements at December 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	$ 33,176	$ 33,176	$ 33,176	$ -	$ -
Certificates of deposit in other financial institutions	1,709	1,737	-	1,737	-
Loans held-for-sale	4,987	5,065	-	5,065	-
Loans receivable, net	953,377	951,744	-	-	951,744
Federal Home Loan Bank stock	3,247	3,247	-	3,247	-
Accrued interest receivable	5,444	5,444	-	5,444	-
Financial liabilities:					
Non-interest bearing deposits	295,294	295,294	295,294	-	-
Interest bearing deposits	1,138,907	1,139,126	899,690	239,436	-
Repurchase agreements	14,581	14,579	12,842	1,737	-
Accrued interest payable	22	22	-	22	-

The following methods were used to estimate the fair value of financial instruments presented in the preceding table for the periods ended June 30, 2022 and December 31, 2021:

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.

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 June 30, 2022, as compared to December 31, 2021, and the results of operations for the quarter and six months ending June 30, 2022, and June 30, 2021. 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, 2021.

At June 30, 2022, the Bancorp had total assets of $2.1 billion, total loans receivable of $1.5 billion and total deposits of $1.9 billion. Stockholders' equity totaled $136.7 million or 6.5% of total assets, with a book value per share of $31.80. Net income for the quarter ended June 30, 2022, was $4.4 million, or $1.04 earnings per common diluted share. For the quarter ended June 30, 2022, the return on average assets (ROA) was 0.85%, while the return on average stockholders’ equity (ROE) was 12.45%. Net income for the six months ended June 30, 2022, was $6.6 million, or $1.59 earnings per diluted common share. For the six months ended June 30, 2022, the ROA was 0.65%, while the ROE was 8.40%.

Recent Developments

Acquisition of Royal Financial, Inc. On January 31, 2022, the Bancorp completed its acquisition of Royal Financial, Inc. (“RYFL”) pursuant to an Agreement and Plan of Merger dated July 28, 2021 (the “Merger Agreement”) between the Bancorp and RYFL. Pursuant to the terms of the Merger Agreement, RYFL merged with and into the Bancorp, with the Bancorp as the surviving corporation (the “RYFL Merger”). Simultaneous with the RYFL Merger, Royal Savings Bank, an Illinois state-chartered savings bank and wholly-owned subsidiary of RYFL, merged with and into the Bank, with the Bank as the surviving institution.

Under the terms of the Merger Agreement, RYFL stockholders who owned 101 or more shares of RYFL common stock were permitted to elect to receive either 0.4609 shares of Finward common stock or $20.14 in cash, or a combination of both, for each share of RYFL common stock owned, subject to proration and allocation provisions such that 65% of the shares of RYFL common stock outstanding immediately prior to the closing of the merger were converted into the right to receive shares of Finward common stock and the remaining 35% of the outstanding RYFL shares were converted into the right to receive cash. Stockholders holding less than 101 shares of RYFL common stock received fixed consideration of $20.14 in cash and no stock consideration for each share of RYFL common stock.

As a result of RYFL stockholder stock and cash elections and the related allocation and proration provisions of the Merger Agreement, Finward issued 795,423 shares of its common stock and paid cash consideration of approximately $18.7 million in the RYFL Merger. Based on the January 28, 2022 closing price of $47.75 per share of Finward common stock, the transaction had an implied valuation of approximately $56.7 million. The acquisition further expanded the Bank’s banking center network in Cook County and DuPage County, Illinois, expanding the Bank’s full-service retail banking network.

Financial Condition

During the six months ended June 30, 2022, total assets increased by $480.7 million (29.7%), with interest-earning assets increasing by $415.3 million (27.3%). At June 30, 2022, interest-earning assets totaled $1.9 billion compared to $1.5 billion at December 31, 2021. Earning assets represented 92.3% of total assets at June 30, 2022 and 94.0% of total assets at December 31, 2021. The increase in total assets and interest earning assets for the six months was primarily the result of the acquisition of RYFL.

Net loans receivable totaled $1.5 billion at June 30, 2022, compared to $953.4 million at December 31, 2021. 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's end-of-period loan balances were as follows:

(Dollars in thousands)	(unaudited) June 30, 2022 Balance	% Loans	December 31, 2021 Balance	% Loans
Residential real estate	$ 459,151	31.3%	260,134	33.0%
Home equity	35,672	2.4%	34,612	5.4%
Commercial real estate	420,735	28.6%	317,145	31.2%
Construction and land development	153,422	10.4%	123,822	9.7%
Multifamily	248,495	16.9%	61,194	5.7%
Consumer	1,673	0.1%	582	0.1%
Manufactured Homes	37,693	2.6%	37,887	1.8%
Commercial business	103,649	7.1%	115,772	11.4%
Government	8,081	0.6%	8,991	1.7%
Loans receivable	1,468,571	100.0%	960,139	100.0%
Plus:				
Net deferred loans origination costs	6,482		6,810	
Undisbursed loan funds	(672)		(229)	
Loans receivable, net of deferred fees and costs	$ 1,474,381		$ 966,720	
Adjustable rate loans / loans receivable	$ 636,956	43.4%	$ 542,975	56.6%

	(unaudited) June 30, 2022	December 31, 2021
Loans receivable to total assets	70.2%	59.6%
Loans receivable to earning assets	76.0%	63.4%
Loans receivable to total deposits	76.9%	67.4%

The following table sets forth certain information at June 30, 2022, regarding the dollar amount of loans in the Bancorp's portfolio based on their contractual terms to maturity. Demand loans, loans having no schedule of repayment and no stated maturity, and overdrafts are reported as due in one year or less. Contractual principal repayments of loans do not necessarily reflect the actual term of the loan portfolio. The average life of mortgage loans is substantially less than their contractual terms because of loan prepayments and because of enforcement of due-on-sale clauses, which give the Bancorp the right to declare a loan immediately due and payable in the event, among other things, that the borrower sells the property subject to the mortgage. The amounts are stated in thousands (000's).

	Maturing within one year	After one but within five years	After five but within fifteen years	After fifteen years	Total
Residential real estate	$ 14,161	$ 28,807	$ 106,023	$ 310,160	459,151
Home equity	4,598	21,818	8,979	277	35,672
Commercial real estate	24,809	106,633	287,314	1,979	420,735
Construction and land development	33,355	42,343	58,097	19,627	153,422
Multifamily	20,093	101,066	124,754	2,582	248,495
Consumer	30	731	912	-	1,673
Manufactured Homes	-	61	10,190	27,442	37,693
Commercial business	43,699	42,507	16,948	495	103,649
Government	100	3,211	4,770	-	8,081
Total loans receivable	$ 140,845	$ 347,177	$ 617,987	$ 362,562	$ 1,468,571

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 six months ended June 30, 2022, the Bancorp originated $33.5 million in new fixed rate mortgage loans for sale, compared to $94.2 million during the six months ended June 30, 2021. Net gains realized from the mortgage loan sales totaled $898 thousand for the six months ended June 30, 2022, compared to $3.2 million for the six months ended June 30, 2021. The decrease in net gains realized from mortgage loan sales for the six months ended June 30, 2022 compared to the prior year period is primarily due to lower demand for fixed rate mortgage loans as a result of increases in mortgage rates, which in-turn has resulted in a slowing in the sale of these mortgage loans. At June 30, 2022, the Bancorp had $1.5 million in loans that were classified as held for sale, compared to $5.0 million at December 31, 2021.

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 June 30, 2022, non-performing loans that remained accruing and more than 90 days past due include four residential real estate loans totaling $610 thousand, three commercial real estate loans totaling $517 thousand, and two commercial business loans totaling $81 thousand. The Bancorp will at times maintain certain loans on accrual status, 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	(unaudited) June 30, 2022	December 31, 2021
Residential real estate	$ 5,585	$ 4,682
Home equity	610	657
Commercial real estate	3,111	1,031
Construction and land development	-	-
Multifamily	369	455
Commercial business	346	436
Consumer	-	-
Manufactured homes	-	-
Government	-	-
Total	$ 10,021	$ 7,261
Nonperforming loans to total loans	0.68%	0.75%
Nonperforming loans to total assets	0.48%	0.45%

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 June 30, 2022 or December 31, 2021.

The Bancorp's substandard loans are summarized below:

(Dollars in thousands) Loan Segment	(unaudited) June 30, 2022	December 31, 2021
Residential real estate	$ 6,019	$ 3,722
Home equity	624	632
Commercial real estate	6,845	3,562
Construction and land development	-	-
Multifamily	2,901	384
Commercial business	279	387
Consumer	-	-
Manufactured homes	-	-
Government	-	-
Total	$ 16,668	$ 8,687

The increase in substandard loans is the result of loans acquired pursuant to the RYFL acquisition.

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	(unaudited) June 30, 2022	December 31, 2021
Residential real estate	$ 2,055	$ 2,940
Home equity	400	415
Commercial real estate	10,890	12,011
Construction and land development	800	3,630
Multifamily	1,541	153
Commercial business	3,057	1,915
Consumer	-	-
Manufactured homes	-	59
Government	-	-
Total	$ 18,743	$ 21,123

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	(unaudited) June 30, 2022	December 31, 2021
Residential real estate	$ 2,347	$ 1,771
Home equity	154	284
Commercial real estate	3,816	1,600
Construction and land development	800	-
Multifamily	2,940	556
Commercial business	1,330	1,597
Consumer	20	-
Manufactured homes	-	-
Government	-	-
Total	$ 11,407	$ 5,808

The increase in impaired loans is the result of purchase credit impaired loans acquired pursuant to the RYFL acquisition.

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	(unaudited) June 30, 2022	December 31, 2021
Residential real estate	$ 1,230	$ 342
Home equity	84	83
Commercial real estate	617	747
Construction and land development	-	-
Multifamily	-	-
Commercial business	518	694
Consumer	-	-
Manufactured homes	-	-
Government	-	-
Total	$ 2,449	$ 1,866

At June 30, 2022, management is of the opinion that there are no loans, 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 six months ended are summarized below:

(Dollars in thousands)

Loan Segment	(unaudited) June 30, 2022	June 30, 2021
Residential real estate	$ 226	$ 62
Home equity	16	96
Commercial real estate	12	533
Construction and land development	(375)	393
Multifamily	280	114
Commercial business	(239)	(53)
Consumer	80	9
Manufactured homes	-	-
Government	-	-
Total	$ -	$ 1,154

The Bancorp's charge-off and recovery information is summarized below:

(Dollars in thousands)

Loan Segment	Charge-off	(unaudited) As of June 30, 2022 Recoveries	Net Charge-offs
Residential real estate	$ -	$ 50	$ 50
Home equity	-	-	-
Commercial real estate	-	-	-
Construction and land development	-	-	-
Multifamily	-	-	-
Commercial business	-	38	38
Consumer	(37)	12	(25)
Manufactured homes	-	-	
Government	-	-	-
Total	$ (37)	$ 100	$ 63

The Bancorp's charge-off and recovery information is summarized below:

(Dollars in thousands)

Loan Segment	(unaudited) As of the six months ended June 30, 2021		
	Charge-off	Recoveries	Net Charge-offs
Residential real estate	$ (4)	$ 25	$ 21
Home equity	(1)	-	(1)
Commercial real estate	-	-	-
Construction and land development	-	-	-
Multifamily	-	-	-
Farmland	-	-	-
Commercial business	-	19	19
Consumer	(17)	5	(12)
Manufactured homes	-	-	
Government	-	-	-
Total	$ (22)	$ 49	$ 27

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.

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

(Dollars in thousands)	(unaudited) June 30, 2022	December 31, 2021
Allowance for loan losses	$ 13,406	$ 13,343
Total loans	$ 1,474,381	$ 966,720
Non-performing loans	$ 10,021	$ 7,261
ALL-to-total loans	0.91%	1.38%
ALL-to-non-performing loans (coverage ratio)	133.8%	183.8%

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 June 30, 2022, total purchased credit impaired loans reserves totaled $2.0 million compared to $1.4 million at December 31, 2021. 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 $6.0 million at June 30, 2022, compared to $1.1 million at December 31, 2021. Details on these fair value marks and the additional reserves created can be found in Note 5, Loans Receivable.

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 $400.5 million at June 30, 2022, compared to $526.9 million at December 31, 2021, a decrease of $126.4 million (24.0%). The decrease is attributable to increased unrealized losses within the portfolio and the use of cashflows from the securities portfolio to fund loan growth. The acute increase in interest rates during the six months ended June 30, 2022, including an increase by the Federal Reserve in the federal funds target rate from 0.25% as of December 31, 2021 to 1.75% as of June 30, 2022, was the primary cause of the increase in unrealized losses on available-for-sale securities within the Bancorp's investment portfolio. Management continues to actively monitor the securities portfolio and does not currently anticipate the need to realize losses from the securities portfolio, and it is unlikely the Bancorp will be required to sell the investments before recovery of their amortized cost bases, which may be at maturity. At June 30, 2022, the securities portfolio represented 20.6% of interest-earning assets and 19.1% of total assets compared to 34.6% of interest-earning assets and 32.5% of total assets at December 31, 2021.

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

(Dollars in thousands)	(unaudited) June 30, 2022 Balance	% Securities	December 31, 2021 Balance	% Securities
U.S. government sponsored entities	$ 7,934	2.0%	$ 8,669	1.6%
U.S. treasury securities	594	0.2%	400	0.1%
Collateralized mortgage obligations and residential mortgage-backed securities	150,061	37.5%	184,701	35.1%
Municipal securities	240,847	60.0%	332,127	63.0%
Collateralized debt obligations	1,030	0.3%	992	0.2%
Total securities available-for-sale	$ 400,466	100.0%	$ 526,889	100.0%

(Dollars in thousands)	(unaudited) June 30, 2022 Balance	December 31, 2021 Balance	YTD Change $	%
Interest bearing deposits in other financial institutions	$ 55,602	$ 19,987	$ 35,615	178.2%
Fed funds sold	2,856	464	2,392	515.5%
Certificates of deposit in other financial institutions	1,482	1,709	(227)	-13.3%
Federal Home Loan Bank stock	3,038	3,247	(209)	-6.4%

The net increase in interest bearing deposits in other financial institutions and fed funds sold is the result of the timing of cash flows and public fund deposits.

The contractual maturities and weighted average yields for the U.S. government securities, agency securities, municipal securities, and collateralized debt obligations at June 30, 2022, are summarized in the table below. Securities not due at a single maturity date, such as mortgage-backed securities and collateralized mortgage obligations are not included in the following table. The carrying values are stated in thousands (000's).

The weighted average yields were calculated by multiplying each carrying value by its yield and dividing the sum of these results by the total carrying values. Yields presented are not on a tax-equivalent basis.

	Within 1 Year		1 - 5 Years		5 - 10 Years		After 10 Years		Total
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
U.S. government sponsored entities: AFS	$ -	0.00%	$ -	0.00%	$ 7,934	1.00%	$ -	0.00%	$ 7,934
U.S. treasury securities:									
AFS	199	0.13%	395	2.38%	-	0.00%	-	0.00%	594
Municipal Securities:									
AFS	296	5.14%	1,561	3.93%	16,935	3.43%	222,055	2.76%	240,847
Trust Preferred Securities:									
AFS	-	0.00%	-	0.00%	-	0.00%	1,030	2.57%	1,030
Totals	$ 495	3.12%	$ 1,956	3.62%	$ 24,869	2.65%	$ 223,085	2.76%	$ 250,405

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)	(unaudited) June 30, 2022 Balance	December 31, 2021 Balance	YTD Change $	%
Checking	$ 755,256	$ 629,038	$ 126,218	20.1%
Savings	436,203	293,976	142,227	48.4%
Money market	327,360	271,970	55,390	20.4%
Certificates of deposit	398,396	239,217	159,179	66.5%
Total deposits	$ 1,917,215	$ 1,434,201	$ 483,014	33.7%

The following table presents the average daily amount of deposits and average rates paid on such deposits for the periods indicated. The amounts are stated inthousands (000's).

	June 30, 2022 (unaudited)		December 31, 2021	
	Amount	Rate %	Amount	Rate %
Noninterest bearing demand deposits	$ 361,252	-	$ 280,900	-
Interest bearing demand deposits	347,983	0.07	297,012	0.08
MMDA accounts	306,827	0.05	253,468	0.13
Savings accounts	409,210	0.14	277,839	0.06
Certificates of deposit	387,982	0.15	271,882	0.46
Total deposits	$ 1,813,254	0.08	$ 1,381,101	0.18

As of June 30, 2022, and December 31, 2021, approximately $631.5 million and $452.0 million, respectively, of our deposit portfolio was uninsured. The uninsured amounts are estimates based on the methodologies and assumptions used for the Bank's regulatory reporting requirements.

The increase in overall deposits is the result of the RYFL acquisition, as well as the Bancorp's efforts to maintain and grow core deposits.

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)	(unaudited) June 30, 2022 Balance	December 31, 2021 Balance	YTD Change $	%
Repurchase agreements	$ 24,536	$ 14,581	$ 9,955	68.3%
Total borrowed funds	$ 24,536	$ 14,581	$ 9,955	68.3%

Repurchase agreements increased as part of normal account fluctuations within that product line.

Other assets totaled $42.0 million at June 30, 2022, compared to $14.9 million at December 31, 2021. The increase in other assets is primarily related to increased deferred tax assets as result of increased unrealized losses within the securities portfolio. Other liabilities totaled $23.1 million at June 30, 2022, compared to $15.3 milllion at December 31, 2021. The increase in other liabilities is primarily the result of increased fair value of interest rate swap contracts and ACH prefunding liabilities.

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 six months ended June 30, 2022, cash and cash equivalents increased by $46.1 million compared to a $48.7 million increase for the six months ended June 30, 2021. The primary sources of cash and cash equivalents were cash and cash equivalents from acquisition activity, the sale of loans originated for sale, proceeds from the sale of securities, proceeds from the maturity and paydown of securities, change in deposits, and change in repurchase agreements and other borrowed funds. The primary uses of cash and cash equivalents were the purchase of securities, and loan originations. Cash provided by operating activities totaled $5.9 million for the six months ended June 30, 2022, compared to cash provided of $13.6 million for the six month period ended June 30, 2021. 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 and net change in accrued expenses and other liabilites. Cash provided from investing activities totaled $24.8 million for the current period, compared to cash outflows of $60.0 million for the six months ended June 30, 2021. Cash provided from investing activities for the current six months were primarily related to the cash and cash equivalents from acquisition activity, net, and proceeds from the sales and maturities of securities, offset against the net change in loans receivable and purchase of securites. Cash provided from financing activities totaled $15.4 million during the current period compared to net cash provided of $95.0 million for the six months ended June 30, 2021. The net cash provided from financing activities were primarily a result of net change in deposits and the change in other borrowed funds. On a cash basis, the Bancorp paid dividends on common stock of $2.4 million for the six months ended June 30, 2022, and $2.2 million for the six months ended June 30, 2021.

At June 30, 2022, outstanding commitments to fund loans totaled $276.1 million. Approximately 54.1% 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 $13.6 million at June 30, 2022. 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 six months ended June 30, 2022, stockholders' equity decreased by $20.0 million (12.7%). During the six months ended June 30, 2022, stockholders’ equity was primarily decreased by other comprehensive losses as the result of market value changes within the securities portfolio of $62.1 million and dividends declared of $2.7 million, offset by increased additional paid in capital related to the RYFL acquisition of $38.0 million and net income of $6.6 million. 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 six months of 2022 or 2021. During 2022, 11,158 restricted stock shares vested under the Incentive Plan outlined in Note 9 of the financial statements, of which 2,449 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 board approved stock repurchase program.

The Bank is subject to risk-based capital guidelines adopted by the FDIC. The 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 Bank is 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 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 six months ended June 30, 2022, the Bancorp's and Bank's risk weighted assets 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 collateralized debt obligations with a cost basis of $2.2 million. These investments currently have ratings that are below investment grade. As a result, approximately $8.6 million of risk-based assets are generated by the collateralized debt obligations in the Bancorp's and Bank's total risk based capital calculation.

In addition, the following table shows that, at June 30, 2022, and December 31, 2021, 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	
June 30, 2022	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1 capital to risk-weighted assets	$ 155.5	10.5%	$ 66.6	4.5%	$ 96.2	6.5%
Tier 1 capital to risk-weighted assets	$ 155.5	10.5%	$ 88.8	6.0%	$ 118.3	8.0%
Total capital to risk-weighted assets	$ 168.9	11.4%	$ 118.3	8.0%	$ 147.9	10.0%
Tier 1 capital to adjusted average assets	$ 155.5	7.8%	$ 81.0	4.0%	$ 101.2	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, 2021	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1 capital to risk-weighted assets	$ 136.6	13.0%	$ 47.4	4.5%	N/A	N/A
Tier 1 capital to risk-weighted assets	$ 136.6	13.0%	$ 63.3	6.0%	N/A	N/A
Total capital to risk-weighted assets	$ 149.8	14.2%	$ 84.3	8.0%	N/A	N/A
Tier 1 capital to adjusted average assets	$ 136.6	8.6%	$ 64.2	4.0%	N/A	N/A

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 2022, without the need for qualifying for an exemption or prior DFI approval, is its 2022 net profits plus $21.4 million. Moreover, the FDIC and the Federal Reserve Board 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 May 20, 2022, the Board of Directors of the Bancorp declared a second quarter dividend of $0.31 per share. The Bancorp's second quarter dividend was paid to shareholders on July 7, 2022.

Results of Operations - Comparison of the Three Months Ended June 30, 2022 to the Three Months Ended June 30, 2021

For the three months ended June 30, 2022, the Bancorp reported net income of $4.4 million, compared to net income of $3.6 million for the three months ended June 30, 2021, an increase of $860 thousand (24.1%). For the three months, the ROA was 0.85%, compared to 0.90% for the three months ended June 30, 2021. The ROE was 12.45% for the three months ended June 30, 2022, compared to 9.17% for the three months ended June 30, 2021.

Net interest income for the three months ended June 30, 2022 was $17.3 million, an increase of $5.4 million (45.7%), compared to $11.9 million for the three months ended June 30, 2021. The weighted-average yield on interest-earning assets was 3.68% for the three months ended June 30, 2022, compared to 3.38% for the three months ended June 30, 2021. The weighted-average cost of funds for the three months ended June 30, 2022 was 0.09% compared to 0.16% for the three months ended June 30, 2021. The impact of the 3.68% return on interest earning assets and the 0.09% cost of funds resulted in an interest rate spread and margin of 3.59% for the current three months, a increase from the 3.22% spread for the three months ended June 30, 2021. The Bancorp's net interest margin on a tax-adjusted basis was 3.78% for the three months ended June 30, 2022, compared to 3.42% for the three months ended June 30, 2021. The Bancorp believes that it is a standard practice in the banking industry to present net interest margin and net interest income on a fully-taxable equivalent basis, as these measures provide useful information to make peer comparisons. Tax adjusted net interest margin represents a non-GAAP financial measure. See the non-GAAP reconciliation table immediately below and the section captioned "Non-GAAP Financial Measures" for further disclosure regarding non-GAAP financial measures.

(Dollars in thousands)	Three Months Ended	
(unaudited)	June 30, 2022	June 30, 2021
Calculation of tax adjusted net interest margin		
Net interest income	$ 17,298	$ 11,872
Tax adjusted interest on securities and loans	930	745
Adjusted net interest income	18,228	12,617
Total average earning assets	1,927,664	1,473,625
Tax adjusted net interest margin	3.78%	3.42%

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.

Three Months Ended *(Dollars in thousands)* *(unaudited)*	Average Balances, Interest, and Rates					
	June 30, 2022			June 30, 2021		
	Average Balance	Interest	Rate (%)	Average Balance	Interest	Rate (%)
ASSETS						
Interest bearing deposits in other financial institutions	$ 25,679	$ 45	0.70	$ 57,543	$ 9	0.06
Federal funds sold	1,388	2	0.58	1,288	-	-
Certificates of deposit in other financial institutions	1,625	3	0.74	1,473	7	1.90
Securities available-for-sale	438,309	2,449	2.23	433,355	2,124	1.96
Loans receivable*	1,457,625	15,221	4.18	976,520	10,275	4.21
Federal Home Loan Bank stock	3,038	20	2.63	3,446	20	2.32
Total interest earning assets	1,927,664	$ 17,740	3.68	1,473,625	$ 12,435	3.38
Cash and non-interest bearing deposits in other financial institutions	21,435			36,377		
Allowance for loan losses	(13,399)			(13,255)		
Other noninterest bearing assets	149,339			97,863		
Total assets	$ 2,085,039			$ 1,594,610		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Total deposits	$ 1,884,712	$ 389	0.08	$ 1,402,398	$ 549	0.16
Repurchase agreements	22,618	26	0.46	16,855	12	0.28
Borrowed funds	9,851	27	1.10	1,720	2	0.47
Total interest bearing liabilities	1,917,181	$ 442	0.09	1,420,973	$ 563	0.16
Other noninterest bearing liabilities	25,443			17,787		
Total liabilities	1,942,624			1,438,760		
Total stockholders' equity	142,415			155,850		
Total liabilities and stockholders' equity	$ 2,085,039			$ 1,594,610		
Net intrest spread	3.59%			3.22%		
Net interest margin**	3.59%			3.22%		
Ratio of interest-earning assets to interest-bearing liabilities	1.01x			1.04x		

* Non-accruing loans have been included in the average balances. ** Net interest income divided by average interest-earning assets.

The increased net interest income and net interest margin for the three months ended June 30, 2022 was primarily the result of the increased earning assets acquired through the RYFL acquisition, reallocation of securities cashflows into organic loan growth, and maintaining lower interest expense.

The following table shows the change in noninterest income for the three months ending June 30, 2022, and June 30, 2021.

(Dollars in thousands)	Three Months Ended June 30,		6/30/2022	vs. 6/30/2021
(unaudited)	2022	2021	$ Change	% Change
Noninterest income:				
Fees and service charges	$ 1,560	$ 1,471	$ 89	6.1%
Wealth management operations	588	576	12	2.1%
Gain on sale of loans held-for-sale, net	291	1,116	(825)	-73.9%
Gain on sale of securities, net	258	269	(11)	-4.1%
Increase in cash value of bank owned life insurance	193	188	5	2.7%
Gain (loss) on sale of foreclosed real estate	-	36	(36)	-100.0%
Other	6	24	(18)	-75.0%
Total noninterest income	$ 2,896	$ 3,680	$ (784)	-21.3%

The decrease in gain on sale of loans is the result of significant refinance in 2021 due to the economic and low-rate environment, which resulted in more loans originated and sold. We expect demand for fixed rate mortgage loans held-for-sale in the secondary market to be lower as borrowing rates on loans increase. The increase in fees and service charges is primarily the result of the acquisition of RYFL and the resultant increase in our customer base.

The following table shows the change in noninterest expense for the three months ending June 30, 2022, and June 30, 2021.

(Dollars in thousands)	Three Months Ended June 30,		6/30/2022	vs. 6/30/2021
(Unaudited)	2022	2021	$ Change	% Change
Noninterest expense:				
Compensation and benefits	$ 7,538	$ 5,897	$ 1,641	27.8%
Data processing	1,246	597	649	108.7%
Occupancy and equipment	1,729	1,324	405	30.6%
Marketing	385	195	190	97.4%
Federal deposit insurance premiums	380	204	176	86.3%
Other	3,898	2,793	1,105	39.6%
Total noninterest expense	$ 15,176	$ 11,010	$ 4,166	37.8%

The increase in compensation and benefits is primarily the result of the RYFL acquisition, management's continued focus on talent management, and wage inflation. The increase in data processing expense is primarily the result of increased system utilization due to growth of the Bank, and continued investment in technological advancements such as Salesforce and nCino. The increase in occupancy and equipment expense is primarily related to the RYFL acquisition and higher operating costs. Marketing expenses have increased to enhance brand recognition in new markets and gain more wallet share. The increase in federal deposit insurance premiums is primarily the result of growth of the bank's average assets. The increase in other operating expenses is primarily the result of one-time expenses related to the acquisition of RYFL, continued investments in strategic initiatives focusing on growth of the organization, and inflationary pressures.

For the three months ended June 30, 2022, data processing expense totaled $1.2 million, a decrease of $1.8 million from the three months ended March 31, 2022 total of $3.1 million. The decrease for the three months ended June 30, 2022, is primarily related to $1.9 million in RYFL conversion expense recognized during the three months ended March 31, 2022.

The provision for income taxes was $587 thousand for the three months ended June 30, 2022, as compared to $395 thousand for the three months ended June 30, 2021, an increase of $192 thousand (48.6%). The effective tax rate was 11.7% for the three months ended June 30, 2022, as compared to 10.0% for the three months ended June 30, 2021. The Bancorp's higher current three months effective tax rate is a result of higher earnings relative to tax preferred income.

Results of Operations - Comparison of the Six Months Ended June 30, 2022 to the Six Months Ended June 30, 2021

For the six months ended June 30, 2022, the Bancorp reported net income of $6.6 million, compared to net income of $8.1 million for the six months ended June 30, 2021, a decrease of $1.5 million (19.1%). For the six months ended, the ROA was 0.65%, compared to 1.04 % for the six months ended June 30, 2021. The ROE was 8.40% for the six months ended June 30, 2022, compared to 10.54% for the six months ended June 30, 2021.

Net interest income for the six months ended June 30, 2022, was $32.8 million, an increase of $8.9 million (37.3%), compared to $23.9 million for the six months ended June 30, 2021. The weighted-average yield on interest-earning assets was 3.59% for the six months ended June 30, 2022, compared to 3.48% for the six months ended June 30, 2021. The weighted-average cost of funds for the six months ended June 30, 2022, was 0.09% compared to 0.18% for the six months ended June 30, 2021. The impact of the 3.59% return on interest earning assets and the 0.09% cost of funds resulted in an interest rate spread of 3.50% for the current six months, which is an increase from the spread of 3.30% as of June 30, 2021. On a tax adjusted basis, the Bancorp's net interest margin was 3.70% for the six months ended June 30, 2022, compared to 3.51% for the six months ended June 30, 2021. The Bancorp believes that it is a standard practice in the banking industry to present net interest margin and net interest income on a fully-taxable equivalent basis, as these measures provide useful information to make peer comparisons. Tax adjusted net interest margin represents a non-GAAP financial measure. See the non-GAAP reconciliation table immediately below and the section captioned "Non-GAAP Financial Measures" for further disclosure regarding non-GAAP financial measures.

(Dollars in thousands)	Six Months Ended	
(unaudited)	June 30, 2022	June 30, 2021
Calculation of tax adjusted net interest margin		
Net interest income	$ 32,833	$ 23,918
Tax adjusted interest on securities and loans	1,896	1,422
Adjusted net interest income	34,729	25,340
Total average earning assets	1,874,835	1,445,263
Tax adjusted net interest margin	3.70%	3.51%

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)* *(unaudited)*	Average Balances, Interest, and Rates					
	June 30, 2022			June 30, 2021		
	Average Balance	Interest	Rate (%)	Average Balance	Interest	Rate (%)
ASSETS						
Interest bearing deposits in other financial institutions	$ 24,032	$ 53	0.44	$ 54,195	$ 21	0.08
Federal funds sold	4,683	2	0.09	1,040	-	-
Certificates of deposit in other financial institutions	1,674	6	0.72	1,535	15	1.95
Securities available-for-sale	474,016	5,024	2.12	408,753	4,065	1.99
Loans receivable*	1,366,900	28,507	4.17	976,059	21,021	4.31
Federal Home Loan Bank stock	3,530	42	2.38	3,681	40	2.17
Total interest earning assets	1,874,835	$ 33,634	3.59	1,445,263	$ 25,162	3.48
Cash and non-interest bearing deposits in other financial institutions	20,821			35,055		
Allowance for loan losses	(13,383)			(12,960)		
Other noninterest bearing assets	138,343			97,967		
Total assets	$ 2,020,616			$ 1,565,325		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Total deposits	$ 1,813,254	$ 726	0.08	$ 1,375,429	$ 1,200	0.17
Repurchase agreements	21,013	42	0.40	15,674	22	0.28
Borrowed funds	7,982	33	0.83	1,903	22	2.31
Total interest bearing liabilities	1,842,249	$ 801	0.09	1,393,006	$ 1,244	0.18
Other noninterest bearing liabilities	22,029			18,295		
Total liabilities	1,864,278			1,411,301		
Total stockholders' equity	156,338			154,024		
Total liabilities and stockholders' equity	$ 2,020,616			$ 1,565,325		
Net intrest spread	3.50%			3.30%		
Net interest margin**	3.50%			3.31%		
Ratio of interest-earning assets to interest-bearing liabilities	1.02x			1.04x		

* Non-accruing loans have been included in the average balances. ** Net interest income divided by average interest-earning assets.

The increased net interest income and net interest margin for the six months ended June 30, 2022 was primarily the result of the increased earning assets acquired through the RYFL acquisition, reallocation of securities cashflows into organic loan growth, and maintaining lower interest expense.

The following table shows the change in noninterest income for the six months ending June 30, 2022, and June 30, 2021.

(Dollars in thousands)	Six Months Ended June 30,		6/30/2022	vs. 6/30/2021
(unadited)	2022	2021	$ Change	% Change
Noninterest income:				
Fees and service charges	$ 2,864	$ 2,537	$ 327	12.9%
Wealth management operations	1,183	1,183	0	0.0%
Gain on sale of loans held-for-sale, net	898	3,165	(2,267)	-71.6%
Gain on sale of securities, net	639	686	(47)	-6.9%
Increase in cash value of bank owned life insurance	445	357	88	24.6%
Gain (loss) on sale of foreclosed real estate	-	27	(27)	-100.0%
Other	11	38	(27)	-71.1%
Total noninterest income	$ 6,040	$ 7,993	$ (1,953)	-24.4%

The decrease in gain on sale of loans is the result of significant refinance activity in 2021 due to the economic and low-rate environment, which resulted in more loans originated and sold. We expect demand for fixed rate mortgage loans held-for-sale in the secondary market to be lower as borrowing rates on loans increase. The increase in fees and service charges is primarily the result of the acquisition of RYFL and the resultant increase in our customer base.

The following table shows the change in noninterest expense for the six months ending June 30, 2022, and June 30, 2021.

(Dollars in thousands)	Six Months Ended June 30,		6/30/2022	vs. 6/30/2021
(unaudited)	2022	2021	$ Change	% Change
Noninterest expense:				
Compensation and benefits	$ 14,905	$ 11,582	$ 3,323	28.7%
Data processing	4,300	1,125	3,175	282.2%
Occupancy and equipment	3,229	2,696	533	19.8%
Marketing	1,036	394	642	162.9%
Federal deposit insurance premiums	599	384	215	56.0%
Other	7,376	5,322	2,054	38.6%
Total noninterest expense	$ 31,445	$ 21,503	$ 9,942	46.2%

The increase in compensation and benefits is primarily the result of the RYFL acquisition, management's continued focus on talent management, and wage inflation. The increase in occupancy and equipment expense is primarily related to the RYFL acquisition and higher operating costs. Marketing expenses have increased to enhance brand recognition in new markets and gain more wallet share. The increase in federal deposit insurance premiums is primarily the result of growth of the bank's average assets. The increase in data processing expense is primarily the result of data conversion expenses related to the acquisition of RYFL, increased system utilization due to growth of the Bank, and continued investment in technological advancements such as Salesforce and nCino. The increase in other operating expenses is primarily the result of one-time expenses related to the acquisition of RYFL, continued investments in strategic initiatives focusing on growth of the organization, and inflationary pressures.

The provision for income taxes was $862 thousand for the six months ended June 30, 2022, as compared to $1.1 million for the six months ended June 30, 2021, a decrease of $278 thousand (24.4%). The effective tax rate was 11.6% for the six months ended June 30, 2022, as compared to 12.3% for the six months ended June 30, 2021. The Bancorp's lower current period effective tax rate is a result of a greater increase in tax preferred income relative to earnings.

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, 2021, 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 2021 Form 10-K.

Non-GAAP Financial Measures

This filing includes certain financial measures that are identified as non-GAAP, including adjusted net interest income and tax adjusted net interest margin. The Bancorp provides these non-GAAP performance measures because they are used by management to evaluate and measure the Bancorp's performance, which the Bancorp believes also is useful to assist investors in assessing the Bancorp's operating performance. Where non-GAAP financial measures are used in this report, the most comparable GAAP measure, as well as the reconciliation to the most comparable GAAP measure, can be found in the tables referenced herein.

The adjusted net interest income and tax-adjusted net interest margin measures recognize the income tax savings when comparing taxable and tax-exempt assets. Interest income and yields on tax-exempt securities and loans are presented using the current federal income tax rate of 21%. Management believes that it is standard practice in the banking industry to present net interest income and net interest margin on a fully tax-equivalent basis and that it may enhance comparability for peer comparison purposes.

Although these non-GAAP financial measures are frequently used by investors to evaluate a financial institution's business and performance, 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. In addition, these non-GAAP financial measures may differ from those used by other financial institutions to assess their business operations and performance.

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 June 30, 2022, 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 six months ended June 30, 2022, 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 six months ended June 30, 2022 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, 2022 – January 31, 2022	-	N/A	-	48,828
February 1, 2022 – February 28, 2022	-	N/A	-	48,828
March 1, 2022 – March 31, 2022	-	N/A	-	48,828
April 1, 2022 – April 30, 2022	-	N/A	-	48,828
May 1, 2022 – May 31, 2022	-	N/A	-	48,828
June 1, 2022 – June 30, 2022	-	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
10.1	Employment Agreement between Finward Bancorp, Peoples Bank and Todd M. Scheub dated as of April 27, 2022 (incorporated herein by reference to Exhibit 10.1 to the Bancorp's Form 8-K dated April 28, 2022).
10.2	Extension Agreement between Finward Bancorp, Peoples Bank and David A. Bochnowski effective as of June 28, 2022 (incorporated herein by reference to Exhibit 10.1 to the Bancorp's Form 8-K dated May 23, 2022).
10.3	Post 2004 Deferred Compensation Plan for the Directors of Peoples Bank, Amended and Restated Effective May 20, 2022 (incorporated herein by reference to Exhibit 10.2 to the Bancorp's Form 8-K dated May 23, 2022).
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 June 30, 2022, formatted in an 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 (formatted as 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: August 15, 2022

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

Date: August 15, 2022

/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: August 15, 2022

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

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: August 15, 2022

/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 June 30, 2022, 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: August 15, 2022

/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.