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

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2023**

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 001-40999

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 No.)

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

46321
(Zip Code)

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

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

Securities registered pursuant to Section 12(g) of the Act: **None.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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, a 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

Based on the average bid and ask prices for the registrant's Common Stock at June 30, 2023, at that date, the aggregate market value of the registrant's Common Stock held by nonaffiliates of the registrant (assuming solely for the purposes of this calculation that all directors and executive officers of the registrant are "affiliates") was $133,611,144.

There were 4,299,092 shares of the registrant's Common Stock, without par value, outstanding at March 28, 2024.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents have been incorporated by reference into this Annual Report on Form 10-K:

1. Definitive Proxy Statement for the 2024 Annual Meeting of Shareholders. (Part III)

Finward Bancorp
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PART I

Item 1. Business

General

Finward Bancorp, an Indiana corporation (the “Bancorp” or “Finward”), was incorporated on January 31, 1994, and is the holding company for Peoples Bank, an Indiana-chartered commercial bank (the “Bank”). The Bank is a wholly owned subsidiary of the Bancorp. The Bancorp has no other business activity other than being a holding company for the Bank and the Bancorp’s earnings are primarily dependent upon the earnings of the Bank.

The Bank is primarily engaged in the business of attracting deposits from the general public and the origination of loans, mostly upon the security of single family residences and commercial real estate, as well as, construction loans and various types of consumer loans, commercial business loans and municipal loans, within its primary market areas of Lake and Porter Counties, in Northwest Indiana, and Cook County, Illinois. In addition, the Bancorp's Wealth Management Group currently provides estate and retirement planning, custodial services, guardianships, IRA accounts, investment agency accounts, serves as the personal representative of estates, and acts as corporate trustee for revocable and irrevocable trusts.

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 closing price of Finward’s common stock on January 28, 2022, 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.

NWIN Risk Management, Inc., previously a captive insurance company incorporated in Nevada and a wholly-owned subsidiary of the Bancorp, was dissolved on August 9, 2023. NWIN Risk Management, Inc. was a captive insurance company that insured against certain risks unique to the operations of the Bancorp, the Bank, and their affiliated entities for which insurance may not have been available or economically feasible in the insurance marketplace. The Bancorp decided to dissolve NWIN Risk Management, Inc. In April 2023, the IRS issued proposed regulations which would establish many 831(b) “micro-captives” as listed transactions. Due to the significant complexity and uncertainty created by the organizational structure, the Bancorp decided to move forward and liquidate NWIN Risk Management, Inc., and simplify our organizational structure. The Bancorp has no immediate plans to replace the coverages previously provided by NWIN Risk Management. The captive insurance company structure under which NWIN Risk Management, Inc. operated was not examined by the IRS prior to its dissolution, however the Bancorp’s management believes the captive insurance structure of NWIN Risk Management, Inc. likely would be sustained if examined by the IRS.

The Bancorp maintains its corporate office at 9204 Columbia Avenue, Munster, Indiana, from which it oversees the operation of its 26 branch locations. For further information, see “Properties.” The Bancorp’s Internet address is www.ibankpeoples.com.

Forward-Looking Statements

Certain of the statements made in this report are “forward-looking statements” within the meaning and protections of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. All statements other than statements of historical fact, including statements regarding our financial position, business strategy, and the plans and objectives of our management for future operations, are forward-looking statements. You can identify these forward-looking statements through our use of words such as “may,” “will,” “anticipate,” “assume,” “should,” “indicate,” “would,” “believe,” “contemplate,” “expect,” “estimate,” “continue,” “plan,” “point to,” “project,” “could,” “intend,” “target,” and other similar words and expressions relating to the future.

Although management believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially, and adversely or positively, from the expectations of the Bancorp that are expressed or implied by any forward-looking statement. Risks, uncertainties, and factors that could cause the Bancorp’s actual results to vary materially from those expressed or implied by any forward-looking statement include but are not limited to:

- The Bank’s ability to demonstrate compliance with the terms of the previously disclosed consent order and memorandum of understanding entered into between the Bank and the Federal Deposit Insurance Corporation (“FDIC”) and Indiana Department of Financial Institutions (“DFI”), or to demonstrate compliance to the satisfaction of the FDIC and/or DFI within prescribed time frames;
- The Bank’s agreement under the memorandum of understanding to refrain from paying cash dividends without prior regulatory approval;
- changes in interest rates, market liquidity, and capital markets, as well as the magnitude of such changes, which may reduce net interest margins;
- continuing effects of inflation;
- current financial conditions within the banking industry, liquidity levels, concentrations in certain loan products or categories, net interest margin compression, and responses by the Federal Reserve, Department of the Treasury, and the Federal Deposit Insurance Corporation to address these issues;
- the use of proceeds of future offerings of securities;
- capital management activities, including possible future sales of new securities, or possible repurchases or redemptions by the Bancorp of outstanding debt or equity securities;

- changes in asset quality and credit risk;
- our ability to sustain revenue and earnings growth;
- customer acceptance of the Bancorp’s products and services;
- customer borrowing, repayment, investment, and deposit practices;
- customer disintermediation;
- the introduction, withdrawal, success, and timing of asset/liability management strategies or of mergers and acquisitions and other business initiatives and strategies;
- competitive conditions;
- our ability to realize cost savings or revenues or to implement integration plans and other consequences associated with mergers, acquisitions, and divestitures;
- changes in fiscal, monetary, and tax policies;
- factors that may cause the Bancorp to incur impairment charges on its investment securities;
- electronic, cyber, and physical security breaches;
- claims and litigation liabilities, including related costs, expenses, settlements, and judgments, or the outcome of matters before regulatory agencies, whether pending or commencing in the future;
- changes in accounting principles and interpretations;
- economic conditions;
- loss of key personnel;
- the impact, extent, and timing of technological changes, capital management activities, and other actions of the Federal Reserve Board and legislative and regulatory actions and reforms; and
- other factors and risks described under the heading “Risk Factors” in Part I, Item 1A of this Form 10-K, as may be updated from time to time in our other filings with the Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

In addition to the above factors, we also caution that the actual amounts and timing of any future common stock dividends or share repurchases will be subject to various factors, including our capital position, financial performance, capital impacts of strategic initiatives, market conditions, and regulatory and accounting considerations, as well as any other factors that our Board of Directors deems relevant in making such a determination. Therefore, there can be no assurance that we will repurchase shares or pay any dividends to holders of our common stock, or as to the amount of any such repurchases or dividends.

Because such forward-looking statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such statements. The foregoing list of important factors is not exclusive and you are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report or, in the case of documents incorporated by reference, the dates of those documents. We do not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by or on behalf of us. The “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of this Form 10-K lists some of the factors that could cause the Bancorp’s actual results to vary materially from those expressed in or implied by any forward-looking statements. We direct your attention to this discussion. Other risks and uncertainties that could affect the Bancorp’s future performance are set forth below in Item 1A, “Risk Factors.”

Lending Activities

General. The Bancorp's product offerings include residential mortgage loans, construction loans, commercial real estate loans, consumer loans, commercial business loans, and loans to municipalities. The Bancorp's lending strategy stresses quality growth, product diversification, and competitive and profitable pricing. While lending efforts include both fixed and adjustable rate products, the focus has been on products with adjustable rates and/or shorter terms to maturity. It is management's goal that all programs are marketed effectively to our primary market area.

The Bancorp is primarily a portfolio lender. Mortgage banking activities are limited to the sale of fixed rate mortgage loans with contractual maturities generally exceeding fifteen years and greater. These loans are sold, on a case-by-case basis, in the secondary market as part of the Bancorp's efforts to manage interest rate risk. All loan sales are made to Freddie Mac, US Bank, or to the Federal Home Loan Bank of Indianapolis. All loans held for sale are recorded at the lower of cost or market value.

Under Indiana Law, an Indiana bank generally may not make any loan to a borrower or its related entities if the total of all such loans by the bank exceeds 15% of its unimpaired capital and unimpaired surplus (plus up to an additional 10% of unimpaired capital and unimpaired surplus, in the case of loans fully collateralized by readily marketable collateral); provided, however, that certain specified types of loans are exempted from these limitations or subject to different limitations. The maximum amount that the Bank could have loaned to one borrower and the borrower's related entities at December 31, 2023, under the 15% of capital and surplus limitation, was approximately $27.5 million. At December 31, 2023, the Bank had no loans that exceeded the regulatory limitations.

At December 31, 2023, there were no concentrations of loans in any type of industry that exceeded 10% of total loans that were not otherwise disclosed as a loan category.

Loan Portfolio. The following table sets forth selected data relating to the composition of the Bancorp's loan portfolio by type of loan at the end of each of the last two years.

(Dollars in thousands)

	December 31, 2023	December 31, 2022
Loans secured by real estate:		
Residential real estate	$ 484,948	$ 484,595
Home equity	46,599	38,978
Commercial real estate	503,202	486,431
Construction and land development	115,227	108,926
Multifamily	219,917	251,014
Total loans secured by real estate	1,369,893	1,369,944
Commercial business	97,386	93,278
Consumer	610	918
Manufactured homes	30,845	34,882
Government	10,021	9,549
Loans receivable	1,508,755	1,508,571
Add (less):		
Net deferred loan origination costs	3,705	5,083
Undisbursed loan funds	135	(23)
Loans receivable, net of deferred fees and costs..	$ 1,512,595	$ 1,513,631

Loan Maturity Schedule. The following table sets forth certain information at December 31, 2023, 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 repayments 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	$ 5,280	$ 26,044	$ 97,047	$ 356,577	$ 484,948
Home equity	13,905	183	4,364	28,147	46,599
Commercial real estate	29,617	117,960	354,964	661	503,202
Construction and land development	25,245	39,223	41,250	9,509	115,227
Multifamily	16,244	81,744	120,806	1,123	219,917
Consumer	167	388	55	-	610
Manufactured Homes	-	73	8,034	22,738	30,845
Commercial business	32,007	49,425	15,469	485	97,386
Government	2,265	3,843	3,913	-	10,021
Total loans receivable	$ 124,730	$ 318,883	$ 645,902	$ 419,240	$ 1,508,755

The following table sets forth the dollar amount of all loans due after one year from December 31, 2023, which have predetermined interest rates or have floating or adjustable interest rates. The amounts are stated in thousands (000's).

	Predetermined rates	Floating or adjustable rates	Total
Residential real estate	$ 375,649	$ 104,019	479,668
Home equity	31,259	1,435	32,694
Commercial real estate	63,036	410,549	473,585
Construction and land development	35,907	54,075	89,982
Multifamily	118,841	84,832	203,673
Farmland	-	-	-
Consumer	443	-	443
Manufactured Homes	30,845	-	30,845
Commercial business	41,102	24,277	65,379
Government	7,756	-	7,756
Total loans receivable	$ 704,838	$ 679,187	$ 1,384,025

Lending Area. 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.

Loan Origination Fees. All loan origination and commitment fees, as well as incremental direct loan origination costs, are deferred and amortized into income as yield adjustments.

Loan Origination Procedure. The primary sources for loan originations are referrals from commercial customers, real estate brokers and builders, solicitations by the Bancorp's lending and retail staff, and advertising of loan programs and rates. The Bancorp employs no staff appraisers. All appraisals are performed by fee appraisers that have been approved by the Board of Directors and who meet all federal guidelines and state licensing and certification requirements.

Designated officers have authorities, established by the Board of Directors, to approve loans. Loans up to $4,000,000 are approved by the loan officers' loan committee. Loans from $4,000,000 to $7,000,000 are approved by the senior officers' loan committee (SOLC). Loans from $7,000,000 to $15,000,000 are approved the executive officer's loan committee. All loans in excess of $15,000,000, up to the legal lending limit of the Bank, must be approved by the Bank's Board of Directors or its Board Risk Management Committee (all members of the Bank's Board of Directors and Board Risk Management Committee are also members of the Bancorp's Board of Directors and Board Risk Management Committee, respectively). Certain loan renewals and extensions may not require approval by the Board of Directors or the Board Risk Management Committee as long as there is no material change, credit downgrade, significant change in borrower or guarantor status, material release, or change in collateral value or the eligible loan renewal or extension is not outside the current concentration limits set by the Board of Directors. The maximum in-house legal lending limit as set by the Board of Directors is the lower of 10% of the Bank's risk-based capital or $15,000,000. Requests that exceed this amount will be considered on a case-by-case basis, after taking into consideration the legal lending limit, by specific Board action. The Bank will not extend credit to any of its executive officers, directors, or principal shareholders or to any related interest of that person, except in compliance with the insider lending restrictions of Regulation O under the Federal Reserve Act and in an amount that, when aggregated with all other extensions of credit to that person, exceeds $1,000,000 unless: (1) the extension of credit has been approved in advance by a majority of the entire Board of Directors of the Bank, and (2) the interested party has abstained from participating directly or indirectly in the voting.

All loans secured by personal property must be covered by insurance in an amount sufficient to cover the full amount of the loan. All loans secured by real estate must be covered by insurance in an amount sufficient to cover the full amount of the loan or restore the property to its original state. First mortgage loans must be covered by a lender's title insurance policy in the amount of the loan.

The Current Lending Programs

Residential Mortgage Loans. 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. During 2023, 64.4% of mortgage loans closed were conventional loans with borrowers having 20% or more equity in the property. This type of loan does 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. ARM originations totaled $17.7 million for 2023 and $44.6 million for 2022. During 2023, ARMs represented 28.8% of total mortgage loan originations. 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.

Construction Loans. 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 properties 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 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.

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.

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.

Home Improvement Loans and Equity Loans—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.

Manufactured Homes. The Bancorp purchases fixed rate closed loans from a third party that are subject to Bancorp's underwriting requirements and secured by manufactured homes. The maturity date on these loans can range up to 25 years. In addition, these loans have a reserve account held at the Bancorp; further detail regarding this reserve can be found in Note 4 – Loans Receivable.

Commercial Business 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.

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

Non-Performing Assets, Asset Classification and Provision for Credit Losses

Loans are reviewed on a regular basis and are generally placed on a non-accrual status when, in the opinion of management, serious doubt exists as to the collectability of a loan. Loans are generally placed on non-accrual status when either principal or interest is 90 days or more past due. Consumer non-residential loans are generally charged off when the loan becomes over 120 days delinquent. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income. Subsequent payments are either applied to the outstanding principal balance, tax and insurance reserve or recorded as interest income, depending on the assessment of the ultimate collectability of the loan.

The Bancorp's mortgage loan collection procedures provide that, when a mortgage loan is 15 days or more delinquent, the borrower will be contacted by mail and payment requested. If the delinquency continues, subsequent efforts will be made to contact the delinquent borrower. In certain instances, the Bancorp will recast the loan or grant a limited moratorium on loan payments to enable the borrower to reorganize his, her, or its financial affairs. If the loan continues in a delinquent status for 120 days, the Bancorp will generally initiate foreclosure proceedings. Collection procedures for consumer loans provide that when a consumer loan becomes ten days delinquent, the borrower will be contacted by mail and payment requested. If the delinquency continues, subsequent efforts will be made to contact the delinquent borrower. In certain instances, the Bancorp may grant a payment deferral. If a loan continues to be delinquent after 60 days and all collection efforts have been exhausted, the Bancorp will initiate legal proceedings. Collection procedures for commercial business loans provide that when a commercial loan becomes ten days delinquent, the borrower will be contacted by mail and payment requested. If the delinquency continues, subsequent efforts will be made to contact the delinquent borrower pursuant to the commercial loan collection policy. In certain instances, the Bancorp may grant a payment deferral or restructure the loan. Once it has been determined that collection efforts are unsuccessful, the Bancorp will initiate legal proceedings.

Any property acquired as the result of foreclosure or by voluntary transfer of property made to avoid foreclosure is classified as foreclosed real estate until such time as it is sold or otherwise disposed of by the Bancorp. Foreclosed real estate is recorded at fair value at the date of foreclosure. At foreclosure, any write-down of the property is charged to the allowance for credit losses. Costs relating to improvement of property are capitalized, whereas holding costs are expensed. Valuations are periodically performed by management, and a valuation allowance is established by a charge to operations if the carrying value of a property exceeds its estimated fair value less selling costs. Subsequent gains or losses on disposition, including expenses incurred in connection with the disposition, are charged to operations.

The following table sets forth information regarding the Bancorp's non-performing assets as of December 31, for each period indicated. The amounts are stated in thousands (000's).

Loans that qualify as troubled loan modifications and accruing:

	2023
Real estate:	
Residential	$ 868
Total	$ 868

Loans that qualify as troubled debt restructurings and accruing:

	2022
Real estate:	
Commercial	$ 1,984
Residential	217
Home Equity	76
Commercial business	476
Total	$ 2,753

	2023	2022
Loans accounted for on a non-accrual basis:		
Real estate:		
Residential	$ 1,693	$ 5,347
Commercial	833	3,242
Multifamily	3,715	7,064
Home Equity	468	594
Commercial business	2,897	1,881
Consumer	2	-
Total	$ 9,608	$ 18,128
Accruing loans which are contractually past due 90 days or more:		
Real estate:		
Commercial	$ 712	$ -
Residential	1,131	166
Manufactured homes	-	82
Total	$ 1,843	$ 248
Ratio of non-performing loans to total assets	0.61%	0.94%
Ratio of non-performing loans to total loans	0.76%	1.21%
* non-performing loans include non-accrual loans and accruing loans which are contractually past due 90 days or more		
Trust preferred securities	$ 1,357	$ 1,048
Ratio of trust preferred securities to total assets	0.06%	0.05%

During 2023, gross interest income of $679 thousand would have been recorded on loans accounted for on a non-accrual basis if the loans had been current throughout the period. Interest on such loans included in income during the period amounted to $109 thousand.

Federal regulations require banks to classify their own loans and to establish appropriate general and specific allowances, subject to regulatory review. These regulations are designed to encourage management to evaluate loans on a case-by-case basis and to discourage automatic classifications. Loans classified as substandard or doubtful must be evaluated by management to determine loan loss reserves. Loans classified as loss must either be written off or reserved for by a specific allowance. Amounts reported in the allowance for credit losses are included in the calculation of the Bancorp's total risk-based capital requirement (to the extent that the amount does not exceed 1.25% of total risk-based assets), but are not included in Tier 1 leverage ratio calculations and Tier 1 risk-based capital requirements.

Substandard loans include non-performing loans and 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 December 31, 2023 or 2022.

The Bancorp's substandard loans are summarized below:
(Dollars in thousands)

Loan Segment	December 31, 2023	December 31, 2022
Residential real estate	$ 2,098	$ 6,035
Home equity	479	612
Commercial real estate	2,544	7,421
Construction and land development	-	-
Multifamily	4,245	7,064
Commercial business	2,896	1,881
Consumer	2	-
Manufactured homes	-	-
Government	-	-
Total	$ 12,264	$ 23,013

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	December 31, 2023	December 31, 2022
Residential real estate	$ 3,084	$ 1,338
Home equity	168	385
Commercial real estate	7,434	4,955
Construction and land development	6,902	2,346
Multifamily	-	1,859
Commercial business	1,610	703
Consumer	-	-
Manufactured homes	-	-
Government	-	-
Total	$ 19,198	$ 11,586

Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date. Purchased credit deteriorated ("PCD") loans have experienced more than insignificant credit deterioration since origination. PCD loans are recorded at the amount paid. An allowance for credit losses is determined using the same methodology as other loans held for investment. The sum of the loan's purchase price and allowance for credit losses becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through credit loss expense.

For acquired non-credit-deteriorated loans and leases, the difference between the fair value and unpaid principal balance of the loan at the acquisition date is amortized or accreted to interest income over the life of the loan. While credit discounts are included in the determination of the fair value for non-credit deteriorated loans, since these discounts are expected to be accreted over the life of the loans, they cannot be used to offset the allowance for credit losses that must be recorded at the acquisition date. As a result, an allowance for credit losses is determined at the acquisition date using the same methodology as other loans held for investment and is recognized as a provision for credit losses in the consolidated income statements. Any subsequent deterioration (improvement) in credit quality is recognized by recording a provision (recapture) for credit losses.

A loan is considered collateral dependent 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 collateral dependent, unless the loan terms are modified due to the financial difficulty of the borrower.

A collateral dependent financial loan relies solely on the operation or sale of the collateral for repayment. In evaluating the overall risk associated with the loan, the Bancorp considers character, overall financial condition and resources, and payment record of the borrower; the prospects for support from any financially responsible guarantors; and the nature and degree of protection provided by the cash flow and value of any underlying collateral. However, as other sources of repayment become inadequate over time, the significance of the collateral's value increases and the loan may become collateral dependent.

The table below presents the amortized cost basis type of loan collateral and allowance for credit losses ("ACL") allocated for collateral dependent loans in accordance with ASC 326, which are individually evaluated to determine expected credit losses.

(Dollars in thousands)	December 31, 2023					
	Real Estate	Equipment/Inventory	Accounts Receivable	Other	Total	ACL Allocation
Residential real estate	$ 32	$ -	$ -	$ -	$ 32	$ 30
Commercial real estate	230	-	-	-	230	53
Multifamily	1,378	-	-	-	1,378	85
Commercial business	-	1,010	494	162	1,666	738
	$ 1,640	$ 1,010	$ 494	$ 162	$ 3,306	$ 906

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 financial difficulty modification. The valuation basis for the Bancorp's troubled loan modification 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.

Loan Modification Disclosures Pursuant to ASU 2022-02
The following table shows the amortized cost of loans at December 31, 2023, that were both experiencing financial difficulty and modified during the year ended December 31, 2023, segregated by portfolio segment and type of modification. The percentage of the amortized cost of loans that were modified to borrowers in financial distress as compared to the amortized cost of each segment of financial receivable is also presented below.

	For the year ended December 31, 2023				
(Dollars in thousands)	Payment Delay	Term Extension	Interest Rate Reduction	Combination Term Extension and Interest Rate Reduction	% of Total Segment Financing Receivables
Residential Real Estate	$ -	$ 868	$ -	$ -	0.18%
Total	$ -	$ 868	$ -	$ -	0.06%

There were no commitments to lend additional amounts to the borrowers included in the previous table.

The Bancorp closely monitors the performance of loans and leases that have been modified for borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table shows the performance of such loans and leases that have been modified during the year ended December 31, 2023.

(Dollars in thousands)	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due
Residential Real Estate	$ 868	$ -	$ -	$ -
Total	$ 868	$ -	$ -	$ -

The borrowers with term extension have had their maturity dates extended and as a result their monthly payments were reduced.

Upon the Bancorp's determination that a modified loan has subsequently been deemed uncollectible, the loan or lease is written off. Therefore, the amortized cost of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

Troubled Debt Restructuring (TDR) Disclosures Prior to the Adoption of ASU 2022-02

During the year ending December 31, 2022, nine residential real estate loans to nine customers totaling $743 thousand were modified to include deferral of principal or interest resulting in troubled debt restructuring classification. Two home equity loans to two customers totaling $189 thousand were modified to include deferral of principal or interest resulting in troubled debt restructuring classification. One commercial real estate loan totaling $1.4 million was provided a short-term renewal resulting in troubled debt restructuring classification. No troubled debt restructuring loans had subsequently defaulted during the year ending December 31, 2022.

As of December 31, 2023, the Bancorp had one residential real estate loan in the process of foreclosure totaling $32 thousand. The Bancorp was not in the process of foreclosing on any residential real estate loan as of December 31, 2022.

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.

On January 1, 2023, the Bancorp adopted ASU No. 2016-13 resulting in an implementation entry of $8.3 million, increasing the ACL by $5.2 million and unfunded commitment liability of $3.1 million, retained earnings decreased $6.1 million and a deferred tax asset of $2.2 million was generated. The majority of the implementation entry is related to including acquired loan portfolios in the model and the addition of using economic forecasts in estimating future losses. In addition, $1.0 million of non-acceptable credit loan discounts on purchase credit impaired loans now classified as purchase credit deteriorated were reallocated to the ACL.

The table that follows sets forth the Allowance for credit losses and related ratios for the years ended December 31, 2023 and 2022. The amounts are stated in thousands (000's).

	2023	2022
Balance at beginning of year	$ 12,897	$ 13,343
Loans charged-off:		
Real estate residential	(998)	(29)
Home Equity	(43)	-
Commercial real estate	(372)	(431)
Commercial business	(1,065)	(57)
Consumer	(93)	(91)
Total charge-offs	(2,571)	(608)
Recoveries:		
Residential real estate	149	53
Commercial real estate	3	-
Multifamily	131	
Commercial business	264	89
Consumer	16	20
Total recoveries	563	162
Net charge-offs	(2,008)	(446)
Adoption of ASC 326	5,158	-
PCD Gross-up	1,029	-
Provision for credit losses	1,692	-
Balance at end of year	$ 18,768	$ 12,897
ACL to loans outstanding	1.24%	0.85%
ACL to nonperforming loans	163.90%	70.18%
Net charge-offs to average loans outstanding during the year	-0.13%	-0.03%
Nonaccruing loans to total loans	0.64%	1.20%

The following table shows the allocation of the allowance for credit losses at December 31, for the dates indicated. The dollar amounts are stated in thousands (000's). The percent columns represent the percentage of loans in each category to total loans.

	2023		2022	
	$	%	$	%
Real estate loans:				
Residential	4,682	35.2	3,431	34.7
Commercial and other dwelling	12,249	55.6	8,044	56.1
Consumer loans	7	2.1	57	2.4
Commercial business and other	1,830	7.1	1,365	6.8
Total	18,768	100.0	12,897	100.0

Investment Activities

The primary objective of the 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. Securities can be classified as trading, held-to-maturity (HTM), or available-for-sale (AFS) at the time of purchase. No securities are classified as trading or as HTM. AFS securities are those the Bancorp may decide to sell if needed for liquidity, asset-liability management or other reasons. It has been the policy of the Bancorp to invest its excess cash in U.S. government agency securities, mortgage-backed securities, collateralized mortgage obligations, municipal securities, and treasury securities. In addition, short-term funds are generally invested as interest bearing balances in financial institutions and federal funds. At December 31, 2023, the Bancorp's investment portfolio totaled $371.4 million. In addition, the Bancorp had $6.5 million in FHLB stock.

The table below shows the carrying values of the available for sale securities portfolio at December 31, 2023 and 2022. The amounts are stated in thousands (000's).

	2023	2022
U.S. government sponsored agencies	$ 7,883	$ 7,625
U.S. treasury securities	-	389
Collateralized Mortgage Obligations and Mortgage-backed securities	123,464	134,116
Municipal Securities	238,670	227,718
Collateralized Debt Securities	1,357	1,048
Total	$ 371,374	$ 370,896

The contractual maturities and weighted average yields for the U.S. government agency securities, municipal securities, and trust preferred securities at December 31, 2023, are summarized in the table below. Securities not due at a single maturity date, such as mortgage-backed securities and collateralized mortgage obligations, are shown separately. 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		Variable Maturities		Total
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
U.S. government sponsored entities:	$ -	0.00%	$ 7,883	1.00%	$ -	0.00%	$ -	0.00%	$ -	0.00%	$ 7,883
Municipal Securities:	249	3.78%	1,442	2.83%	20,486	3.35%	216,494	2.71%	-	0.00%	238,671
Trust Preferred Securities:	-	0.00%	-	0.00%	-	0.00%	1,357	8.18%	-	0.00%	1,357
Collateralized mortgage obligations and residential mortgage- backed securities:	-	0.00%	-	0.00%	-	0.00%	-	0.00%	123,465	1.92%	123,465
Totals	$ 249	3.78%	$ 9,325	1.29%	$ 20,486	3.35%	$ 217,850	2.74%	$ 123,465	1.92%	$ 371,375

The Bancorp currently holds two trust preferred securities and the securities' quarterly interest payments have been placed in "payment in kind" status. Payment in kind status results in a temporary delay in the payment of interest. As a result of a delay in the collection of the interest payments, management placed these securities in non-accrual status. At December 31, 2023, the cost basis of the two trust preferred securities on non-accrual status totaled $2.2 million.

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

Sources of Funds

General. Deposits are the major source of the Bancorp's funds for lending and other investment purposes. In addition to deposits, the Bancorp derives funds from maturing investment securities and certificates of deposit, dividend receipts from the investment portfolio, loan principal repayments, repurchase agreements, advances from the Federal Home Loan Bank of Indianapolis (FHLB) and other borrowings. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows are significantly influenced by general interest rates and money market conditions. Borrowings may be used on a short-term basis to compensate for reductions in the availability of other sources of funds. They may also be used on a longer-term basis for general business purposes. The Bancorp uses repurchase agreements, as well as a line-of-credit and advances from the FHLB for borrowings. At December 31, 2023, the Bancorp had $80.0 million from the Bank Term Funding Program (described below) and $38.1 million in repurchase agreements. The Bancorp had no other borrowed funds as of December 31, 2023.

Deposits. Retail and commercial deposits are attracted principally from within the Bancorp's primary market area. The Bancorp offers a broad selection of deposit instruments including non-interest bearing demand accounts, interest bearing demand accounts, savings accounts, money market deposit accounts, certificate accounts and retirement savings plans. Deposit accounts vary as to terms, with the principal differences being the minimum balance required, the time period the funds must remain on deposit and the interest rate. Certificate account offerings typically range in maturity from ten days to 42 months. The deregulation of federal controls on insured deposits has allowed the Bancorp to be more competitive in obtaining funds and to be flexible in meeting the threat of net deposit outflows. The Bancorp does not obtain funds through brokers, however, the Bancorp did acquire brokered deposits through the acquisition of Royal Financial, which it still maintains.

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

	December 31, 2023		December 31, 2022	
	Amount	Rate %	Amount	Rate %
Noninterest bearing demand deposits	$ 323,694	-	$ 377,408	-
Interest bearing demand deposits	344,449	0.96	374,815	0.36
MMDA accounts	284,910	2.73	286,155	0.37
Savings accounts	343,008	0.05	416,898	0.05
Certificates of deposit	488,025	2.91	368,322	0.26
Total deposits	$ 1,784,086	1.43	$ 1,823,598	0.20

As of December 31, 2023, and 2022, approximately $530.2 million and $516.1 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 following table sets forth the portion of the Bank's time deposits, by account, that are in excess of the FDIC insurance limit, by remaining time until maturity, as of December 31, 2023 (dollars in thousands).

3 months or less	$ 15,248
Over 3 months through 6 months	10,469
Over 6 months through 12 months	21,301
Over 12 months	20,355
Total	$ 67,373

Borrowings. Borrowed money is used on a short-term basis to compensate for reductions in the availability of other sources of funds and is generally accomplished through repurchase agreements, as well as, through a line of credit and advances from the FHLB. Repurchase agreements generally mature within one year and are generally secured by U.S. government securities or U.S. agency securities, under the Bancorp's control. FHLB advances with maturities ranging from one year to five years are used to fund securities and loans of comparable duration, as well as to reduce the impact that movements in short-term interest rates have on the Bancorp's overall cost of funds. Fixed rate advances are payable at maturity, with a prepayment penalty for advances paid prior to maturity.

On March 12, 2023, the Federal Reserve Board announced the creation of a new Bank Term Funding Program (the "BTFP"). The BTFP offers loans of up to one year to banks, savings associations, credit unions, and other eligible depository institutions pledging U.S. Treasury securities, agency debt and mortgage-backed securities, and other qualifying assets as collateral. These assets are valued at par for purposes of the collateral pledge under the BTFP. During the first quarter of 2023, the Bancorp participated in the BTFP by accessing $100 million of low-cost capital under the program and had $80 million outstanding as of December 31, 2023. As of December 31, 2023, the Bancorp had pledged securities as collateral for the program with a par value of $105.3 million. The Bancorp's liquidity position remains strong with solid core deposit customer relationships, excess cash, debt securities, and access to diversified borrowing sources. The Bancorp has available liquidity of $824.0 million including borrowing capacity from the FHLB and Federal Reserve facilities. In addition to the BTFP, the Bancorp maintains a $25.0 million line of credit with the Federal Home Loan Bank of Indianapolis. The Bancorp did not have a balance on the line of credit at December 31, 2023 or 2022.

At December 31, 2023, the borrowing from the BTFP was scheduled to mature in March 2024, but the Bank filed an extension per program guidelines, which resulted in the rate increasing from 4.38% to 5.40% at that time.

The following tables set forth certain information regarding borrowing and repurchase agreements by the Bancorp at the end of and during the periods indicated. The amounts are stated in thousands (000's).

	At December 31, 2023	At December 31, 2022
Repurchase agreements:		
Balance	$ 38,124	$ 15,503
Securities underlying the agreements:		
Ending carrying amount	54,458	32,660
Ending fair value	54,458	32,660
Weighted average rate (1)	4.00%	0.94%

	For year ended December 31, 2023	For year ended December 31, 2022
Highest month-end balance	$ 48,947	$ 28,328
Average outstanding balance	35,543	20,649
Weighted average rate on securities sold under agreements to repurchase (2)	5.14%	2.43%

	At December 31, 2023	At December 31, 2022
Fixed rate short-term advances from the FHLB	$ -	$ 120,000
Fixed rate advances from the Federal Reserve with outstanding rates of 4.38% as of December 31, 2023	80,000	-
Total borrowings	$ 80,000	$ 120,000

(1) The weighted average rate for each period is calculated by weighting the principal balances outstanding for the various interest rates.

(2) The weighted average rate is calculated by dividing the interest expense for the period by the average daily balances of securities sold under agreements to repurchase for the period.

Wealth Management Group

In addition, the Bancorp's Wealth Management Group currently provides estate and retirement planning, custodial services, guardianships, IRA accounts, investment agency accounts, serves as the personal representative of estates, and acts as corporate trustee for revocable and irrevocable trusts. At December 31, 2023, the market value of the Wealth Management Group's assets under management totaled $387.1 million, an increase of $25.7 million, compared to December 31, 2022. Property, other than cash deposits, held in a fiduciary or agency capacity is not included in the consolidated balance sheets since such property is not owned by the Bancorp.

Analysis of Profitability and Key Operating Ratios

Financial Ratios and the Analysis of Changes in Net Interest Income.

The tables below set forth certain financial ratios of the Bancorp for the periods indicated:

	Year ended December 31, 2023	Year ended December 31, 2022
Return on average assets	0.40%	0.74%
Return on average equity	6.28%	10.47%
Average equity-to-average assets ratio	6.41%	7.07%
Dividend payout ratio	53.55%	34.34%

	At December 31, 2023	At December 31, 2022
Total stockholders' equity to total assets	6.99%	6.59%

The average balance sheet amounts, the related interest income or expense, and average rates earned or paid are presented in the following table. The amounts are stated in thousands (000's).

	Year ended December 31, 2023			Year ended December 31, 2022		
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
Assets:						
Interest bearing balances in financial institutions	$ 37,615	$ 1,846	4.91%	$ 23,553	$ 315	1.34%
Federal funds sold	1,341	58	4.33	3,025	11	0.36
Nontaxable Securities	226,896	6,117	2.70	260,485	6,677	2.56
Taxable Securities	142,594	3,000	2.10	170,481	2,899	1.70
Total investments	408,446	11,021	2.70	457,544	9,902	2.16
Loans:*						
Real estate mortgage loans	1,389,048	66,870	4.81	1,273,453	54,522	4.28
Commercial business loans	96,302	6,419	6.67	118,595	5,862	4.94
Consumer loans	33,660	1,473	4.38	38,969	1,749	4.49
Total loans	1,519,010	74,762	4.92	1,431,017	62,133	4.34
Total interest-earning assets	1,927,456	85,783	4.45	1,888,561	72,035	3.81
Allowance for credit losses	(18,106)			(13,385)		
Other assets	174,011			163,079		
Total assets	$ 2,083,361			$ 2,038,255		
Liabilities:						
NOW accounts	$ 344,449	$ 3,294	0.96%	$ 374,815	$ 1,363	0.36%
Money market demand accounts	284,910	7,777	2.73	286,155	1,052	0.37
Savings accounts	343,008	175	0.05	416,898	216	0.05
Certificates of deposit	488,025	14,192	2.91	368,322	973	0.26
Total interest-bearing deposits	1,460,392	25,438	1.74	1,446,190	3,604	0.25
Repurchase Agreements	35,543	1,294	3.64	20,649	195	0.94
Borrowed funds	98,848	4,496	4.55	26,806	1,087	4.06
Total interest-bearing liabilities	1,594,783	31,228	1.96	1,493,645	4,886	0.33
Demand deposit accounts	323,694			377,408		
Other liabilities	31,347			23,132		
Total liabilities	1,949,824			1,894,185		
Stockholders' equity	133,537			144,070		
Total liabilities and stockholders' equity	$ 2,083,361			$ 2,038,255		
Net interest income		$ 54,555			$ 67,149	
Net interest spread			2.49%			3.49%
Net interest margin**			2.83%			3.56%
Ratio of interest-earning assets to interest-bearing liabilities			1.21x			1.26x

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

The table below sets forth certain information regarding changes in interest income and interest expense of the Bancorp for the periods indicated. For each category of interest-earning asset and interest-bearing liability, information is provided on changes attributable to: (1) changes in volume (change in volume multiplied by old rate) and (2) changes in rate (change in rate multiplied by old volume). Changes attributable to both rate and volume which cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate. The amounts are stated in thousands (000's).

	Year Ended December 31,		
	2023	vs.	2022
	Increase / (Decrease) Due To		
	Volume	Rate	Total
Interest income:			
Loans receivable	$ 3,981	$ 8,648	$ 12,629
Nontaxable securities	(893)	333	(560)
Taxable securities	(640)	452	(188)
Interest bearing balances in other financial institutions	280	1,251	1,531
Federal funds sold	(9)	56	47
Total interest-earning assets	2,719	10,740	13,459
Interest Expense:			
NOW accounts	(155)	2,086	1,931
Money market accounts	(5)	6,730	6,725
Savings accounts	(64)	23	(41)
Certificates of deposit	616	12,603	13,219
Repurchase agreements	222	877	1,099
Borrowed funds	3,261	148	3,409
Total interest-bearing liabilities	3,875	22,467	26,342
Net change in net interest income	$ (1,156)	$ (11,727)	$ (12,883)

Subsidiary Activities

Peoples Service Corporation, a wholly owned subsidiary of the Bank was incorporated under the laws of the State of Indiana. The subsidiary currently provides insurance and annuity investments to the Bank's wealth management customers.

NWIN, LLC is a wholly owned subsidiary of the Bank. NWIN, LLC was incorporated under the laws of the State of Nevada as an investment subsidiary. The investment subsidiary currently holds security investments, which are managed by a professional portfolio manager. In addition, the investment subsidiary is the parent of a real estate investment trust, NWIN Funding, Inc., that invests in real estate loans originated by the Bank.

NWIN Funding, Inc. is a subsidiary of NWIN, LLC, and was formed as an Indiana Real Estate Investment Trust (REIT). The formation of NWIN Funding, Inc. provides the Bancorp with a vehicle that may be used to raise capital utilizing portfolio mortgages as collateral, without diluting stock ownership.

Columbia Development Company, LLC is a wholly owned subsidiary of the Bank and was incorporated under the laws of the State of Indiana. The subsidiary holds real estate properties that the Bank has acquired through the foreclosure process.

The consolidated financial statements include the Bancorp, its wholly owned subsidiaries, the Bank and the Bank's wholly owned subsidiaries, Peoples Service Corporation, NWIN, LLC and Columbia Development Company, LLC. The Bancorp's business activities include being a holding company for the Bank. The Bancorp's earnings are dependent upon the earnings of the Bank. All significant inter-company accounts and transactions have been eliminated in consolidation.

Competition

The Bancorp's primary market area for deposits, loans, and financial services encompasses Lake and Porter Counties, in Northwest Indiana, and Cook County in Northeast Illinois. All of the Bancorp's banking centers and offices are located in its primary market area. Approximately ninety-four percent of the Bancorp's business activities are within this area.

The Bancorp faces strong competition in its primary market area for the attraction and retention of deposits and in the origination of loans. The Bancorp's most direct competition for deposits has historically come from commercial banks, savings associations, and credit unions located in its primary market area. Particularly in times of high interest rates, the Bancorp has had significant competition from mutual funds and other firms offering financial services. The Bancorp's competition for loans comes principally from savings associations, commercial banks, mortgage banking companies, credit unions, insurance companies, and other institutional lenders.

The Bancorp competes for loans principally through the interest rates and loan fees it charges and the efficiency and quality of the services it provides borrowers and other third-party sources. It competes for deposits by offering depositors a wide variety of savings accounts, checking accounts, competitive interest rates, convenient banking center locations, drive-up facilities, automatic teller machines, tax deferred retirement programs, digital banking, and other miscellaneous services.

The activities of the Bancorp and the Bank in the geographic market served involve competition with other banks as well as with other financial institutions and enterprises, many of which have substantially greater resources than those available to the Bancorp. In addition, non-bank financial services companies with which the Bancorp and Bank compete, while subject to regulation by the CFPB, are generally not subject to the same type of extensive regulation by the federal and state banking agencies applicable to the Bancorp and the Bank.

Employees and Human Capital Resources

We believe that the foundation of our success in the banking business lies with the quality of our employees, the development of our employees' skills and career goals, and our ability to provide a comprehensive rewarding experience and work environment for our employees. We encourage and support the development of our employees and, wherever possible, strive to fill positions from within the organization. As of December 31, 2023, the Bank had 276 full-time and 28 part-time employees. The employees are not represented by a collective bargaining agreement. Management believes its employee relations are good. The Bancorp has four executive officers. The Bancorp's officers also are full-time employees of the Bank, and are compensated by the Bank.

Regulation and Supervision

Bank Holding Company Regulation. The Bancorp is registered as a bank holding company for the Bank and has elected to be a financial holding company under the Gramm-Leach-Bliley Act of 1999. As a bank holding company and financial holding company, the Bancorp is subject to the regulation and supervision of the FRB under the Bank Holding Company Act of 1956, as amended (the "BHCA"). Bank holding companies are required to file periodic reports with and are subject to periodic examination by the FRB.

Under the BHCA, without the prior approval of the FRB, the Bancorp may not acquire direct or indirect control of more than 5% of the voting stock or substantially all of the assets of any company, including a bank, and may not merge or consolidate with another bank holding company. In addition, the Bancorp is generally prohibited by the BHCA from engaging in any nonbanking business unless such business is determined by the FRB to be so closely related to banking as to be a proper incident thereto. Under the BHCA, the FRB has the authority to require a bank holding company to terminate any activity or relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the FRB's determination that such activity or control constitutes a serious risk to the financial soundness and stability of any bank subsidiary of the bank holding company.

The Change in Bank Control Act ("CBCA") prohibits a person or group of persons from acquiring "control" of a bank holding company unless the FRB has been notified and has not objected to the transaction. Under a rebuttable presumption established by the FRB, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act, such as the Bancorp, would, under the circumstances set forth in the presumption, constitute acquisition of control of the Bancorp. In addition, the CBCA prohibits any entity from acquiring 25% (the BHCA has a lower limit for acquirers that are existing bank holding companies) or more of a bank holding company's or bank's voting securities, or otherwise obtaining control or a controlling influence over a bank holding company or bank without the approval of the FRB. On April 1, 2021, the FRB's final rule clarifying the standards for determining whether one company has control over another became effective. The final rule establishes four categories of tiered presumptions of noncontrol that are based on the percentage of voting shares held by the investor (less than 5%, 5-9.9%, 10-14.9% and 15-24.9%) and the presence of other indicia of control. As the percentage of ownership increases, fewer indicia of control are permitted without falling outside of the presumption of noncontrol. These indicia of control include nonvoting equity ownership, director representation, management interlocks, business relationship and restrictive contractual covenants. Under the final rule, investors can hold up to 24.9% of the voting securities and up to 33% of the total equity of a company without necessarily having a controlling influence.

Under the Dodd Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), a bank holding company is expected to serve as a source of financial and managerial strength to its subsidiary bank(s). Pursuant to this requirement, a bank holding company should stand ready to use its resources to provide adequate capital funds to its subsidiary bank(s) during periods of financial stress or adversity. This support may be required by the FRB at times when the Bancorp may not have the resources to provide it or, for other reasons, would not be inclined to provide it. Additionally, under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), a bank holding company is required to provide limited guarantee of the compliance by any insured depository institution subsidiary that may become "undercapitalized" (as defined in the statute) with the terms of any capital restoration plan filed by such subsidiary with its appropriate federal banking agency.

State Bank Regulation. As an Indiana commercial bank, the Bank is subject to federal regulation and supervision by the FDIC and to state regulation and supervision by the DFI. The Bank's deposit accounts are insured by the DIF, which is administered by the FDIC. The Bank is not a member of the Federal Reserve System.

Both federal and Indiana law extensively regulate various aspects of the banking business such as reserve requirements, truth-in-lending and truth-in-savings disclosures, equal credit opportunity, fair credit reporting, trading in securities and other aspects of banking operations. Current federal law also requires banks, among other things, to make deposited funds available within specified time periods.

Under FDICIA, insured state chartered banks are prohibited from engaging as principal in activities that are not permitted for national banks, unless: (i) the FDIC determines that the activity would pose no significant risk to the appropriate deposit insurance fund, and (ii) the bank is, and continues to be, in compliance with all applicable capital standards.

Regulatory Actions Affecting the Bank. As previously disclosed, on November 7, 2023, the Bank entered into a Stipulation and Consent to the Issuance of a Consent Order with the FDIC and the Indiana Department of Financial Institutions ("DFI"), consenting to the issuance of a consent order relating to the Bank's compliance with the Bank Secrecy Act and its implementing regulations. On that same date, the Bank also entered into a memorandum of understanding ("MOU") with the FDIC and DFI pursuant to which the Bank has agreed to take various actions and comply with certain requirements to enhance certain areas of the Bank's operations. For a further description of these matters, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Recent Developments Regarding the Bancorp and the Bank" below.

Branches and Acquisitions. Branching by the Bank requires the approval of the Federal Reserve and the DFI. Under current law, Indiana chartered banks may establish branches throughout the state and in other states, subject to certain limitations. Congress authorized interstate branching, with certain limitations, beginning in 1997. Indiana law authorizes an Indiana bank to establish one or more branches in states other than Indiana through interstate merger transactions and to establish one or more interstate branches through de novo branching or the acquisition of a branch. The Dodd-Frank Act permits the establishment of de novo branches in states where such branches could be opened by a state bank chartered by that state. The consent of the state is no longer required.

Transactions with Affiliates. Under Indiana law, the Bank is subject to Sections 22(h), 23A and 23B of the Federal Reserve Act, which restrict financial transactions between banks and affiliated companies, such as the Bancorp. The statute limits credit transactions between a bank and its executive officers and its affiliates, prescribes terms and conditions for bank affiliate transactions deemed to be consistent with safe and sound banking practices, and restricts the types of collateral security permitted in connection with a bank's extension of credit to an affiliate.

Capital Requirements. Federal regulations require FDIC insured depository institutions to meet several minimum capital standards: (i) a common equity Tier 1 capital to risk-based assets ratio of 4.5%; (ii) a Tier 1 capital to risk-based assets ratio of 6.0%; (iii) a total capital to risk-based assets ratio of 8%; and (iv) a 4% Tier 1 capital to total assets leverage ratio.

Common equity Tier 1 capital is generally defined as common shareholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and Additional Tier 1 capital. Additional Tier 1 capital generally includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus Additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock, and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income ("AOCI"), up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Institutions that have not exercised the AOCI opt-out have AOCI incorporated into common equity Tier 1 capital (including unrealized gains and losses on available-for-sale-securities). Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, and residual interests) are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. For example, a risk weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to prudently underwritten first lien one to four-family residential mortgages, a risk weight of 100% is assigned to commercial and consumer loans, a risk weight of 150% is assigned to certain past due loans and a risk weight of between 0% to 600% is assigned to permissible equity interests, depending on certain specified factors.

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 FRB and FDIC have authority to establish individual minimum capital requirements in appropriate cases upon a determination that an institution’s capital level is or may become inadequate in light of the particular risks or circumstances. As of December 31, 2023, the Bank met all applicable capital adequacy requirements.

Bank holding companies are generally subject to consolidated capital requirements established by the FRB. The Dodd-Frank Act 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.

Federal law establishes a system of prompt corrective action to resolve the problems of undercapitalized institutions. The law requires that certain supervisory actions be taken against undercapitalized institutions, the severity of which depends on the degree of undercapitalization. The FDIC has adopted regulations to implement the prompt corrective action legislation as to insured state banks. An institution is deemed to be “well capitalized” if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater, and a common equity Tier 1 ratio of 6.5% or greater. An institution is “adequately capitalized” if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater, and a common equity Tier 1 ratio of 4.5% or greater. An institution is “undercapitalized” if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0%, or a common equity Tier 1 ratio of less than 4.5%. An institution is deemed to be “significantly undercapitalized” if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0%, or a common equity Tier 1 ratio of less than 3.0%. An institution is considered to be “critically undercapitalized” if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%.

Subject to a narrow exception, a receiver or conservator is required to be appointed for an institution that is “critically undercapitalized” within specified time frames. The regulations also provide that a capital restoration plan must be filed with the FDIC within 45 days of the date an institution is deemed to have received notice that it is “undercapitalized,” “significantly undercapitalized,” or “critically undercapitalized.” Compliance with the plan must be guaranteed by any parent holding company up to the lesser of 5% of the institution’s total assets when it was deemed to be undercapitalized or the amount necessary to achieve compliance with applicable capital requirements. In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. The FDIC could also take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors. Significantly and critically undercapitalized institutions are subject to additional mandatory and discretionary measures.

Section 201 of the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (the “Economic Growth Act”) directed federal banking agencies to draft regulations establishing a new optional Community Bank Leverage Ratio (“CBLR”). The Economic Growth Act provides that the CBLR will apply to a “qualifying community bank” which the Economic Growth Act defines as a bank with consolidated assets of less than $10 billion and satisfying additional criteria designed to disqualify institutions with a higher risk profile. Under the Economic Growth Act, qualifying community banks that meet or exceed the CBLR and elect to follow the alternative regulatory capital structure will be deemed to have satisfied all generally applicable leverage capital and risk-based capital requirements and will be considered “well capitalized” under the FDIC prompt corrective action provisions. The Economic Growth Act directed the FRB, the FDIC, and the Office of the Comptroller of the Currency (“OCC”) to jointly determine a community bank leverage ratio percentage, not less than 8% nor more than 10%, that must be maintained to be deemed to have satisfied all generally applicable leverage capital and risk-based capital requirements and be considered well capitalized. The Economic Growth Act also directed agencies to establish procedures for dealing with a qualifying bank that subsequently falls below the new ratio.

The final regulation implementing Section 201 became effective on January 1, 2021 (the “Final Rule”). Under the Final Rule, to be eligible to use the CBLR framework, a banking organization must not be an advanced approaches organization and must have (i) a leverage ratio of greater than 9%; (ii) total consolidated assets of less than $10 billion; (iii) total off-balance sheet exposures of 25% or less of total consolidated assets; and (iv) total trading assets plus trading liabilities of 5% or less of total consolidated assets. A qualifying institution may opt in and out of the CBLR framework on its quarterly call report. An institution that ceases to meet any qualifying criteria is provided with a two-quarter grace period to either comply with the CBLR requirements or comply with the general capital regulations, including the risk-based capital requirements.

Section 4012 of the Coronavirus Aid, Relief and Economic Security Act of 2021 (the “CARES Act”) required that the CBLR be temporarily lowered to 8%. The federal regulators issued a rule implementing the lower ratio effective April 23, 2021. The rule also established a two-quarter grace period for a qualifying institution whose leverage ratio falls below the 8% CBLR requirement so long as the bank maintains a leverage ratio of 7% or greater. Another rule was issued to transition back to the 9% CBLR by increasing the ratio to 8.5% for calendar year 2022 and 9% thereafter. The Bank did not elect to opt in to the CBLR framework.

The following table shows that, at December 31, 2023, and December 31, 2022, 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	
December 31, 2023	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1 capital to risk-weighted assets	$ 168.3	10.4%	$ 72.6	4.5%	$ 104.9	6.5%
Tier 1 capital to risk-weighted assets	$ 168.3	10.4%	$ 96.9	6.0%	$ 129.1	8.0%
Total capital to risk-weighted assets	$ 183.3	11.4%	$ 129.1	8.0%	$ 161.4	10.0%
Tier 1 capital to adjusted average assets	$ 168.3	7.8%	$ 86.6	4.0%	$ 108.2	5.0%

(Dollars in millions)	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
December 31, 2022	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1 capital to risk-weighted assets	$ 161.3	10.1%	$ 71.6	4.5%	$ 103.4	6.5%
Tier 1 capital to risk-weighted assets	$ 161.3	10.1%	$ 95.5	6.0%	$ 127.3	8.0%
Total capital to risk-weighted assets	$ 174.2	10.9%	$ 127.3	8.0%	$ 159.1	10.0%
Tier 1 capital to adjusted average assets	$ 161.3	7.7%	$ 84.3	4.0%	$ 105.4	5.0%

In December 2017, the Basel Committee on Banking Supervision published the last version of the Basel III accord, generally referred to as “Basel IV.” The Basel Committee stated that a key objective of the revisions incorporated into the framework is to reduce excessive variability of risk-weighted assets (“RWA”), which will be accomplished by enhancing the robustness and risk sensitivity of the standardized approaches for credit risk and operational risk, which will facilitate the comparability of banks’ capital ratios; constraining the use of internally modeled approaches; and complementing the risk-weighted capital ratio with a finalized leverage ratio and a revised and robust capital floor. The leadership of the FRB, Office of the Comptroller of the Currency (“OCC”), and FDIC, who are tasked with implementing Basel IV, supported the revisions. Under the current U.S. capital rules, operational risk capital requirements and a capital floor apply only to advanced approaches institutions, and not to the Bancorp. The impact of Basel IV on the Bancorp will depend on the manner in which it is implemented by the federal banking regulators.

Banking regulators may change these capital requirements from time to time, depending on the economic outlook generally and the outlook for the banking industry. The Bancorp is unable to predict whether and when any such further capital requirements would be imposed and, if so, to what levels and on what schedule.

New Accounting Standards With Regulatory Effect. In June 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments (“CECL”). 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 (“ACL”) valuation account that is deducted from the amortized cost basis to present the net carrying value at the amount expected to be collected on the financial asset. The amendments in this ASU also eliminate the probable initial recognition threshold in current GAAP and instead, reflect an entity’s current estimate of all expected credit losses using reasonable and supportable forecasts. The new credit loss guidance became effective for the Bancorp as of January 1, 2023. On January 1, 2023, the Bancorp adopted ASU No. 2016-13 using a modified retrospective transition method, resulting in an implementation entry of $9.3 million, increasing the ACL by $6.2 million and unfunded commitment liability of $3.1 million, retained earnings decreased $6.1 million and a deferred tax asset of $2.2 million was generated. The majority of the implementation entry is related to including acquired loan portfolios in the model and the addition of using economic forecasts in estimating future losses. In addition, $1.0 million of non-accretable credit loan discounts on purchase credit impaired loans now classified as purchase credit deteriorated were reallocated to the ACL.

Dividend Limitations. The Bancorp is a legal entity separate and distinct from the Bank. The primary source of the Bancorp’s cash flow, including cash flow to pay dividends on the Bancorp’s Common Stock, is the payment of dividends to the Bancorp by the Bank. Under Indiana law, the Bank may pay dividends of so much of 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 DFI for the payment of a dividend 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 FDIC has the authority to prohibit the Bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice in light of the financial condition of the Bank. In addition, under FRB supervisory policy, a bank holding company generally should not maintain its existing rate of cash dividends on common shares unless (i) the organization’s net income available to common shareholders over the past year has been sufficient to fully fund the dividends and (ii) the prospective rate of earnings retention appears consistent with the organization’s capital needs, assets, quality, and overall financial condition. The FRB expects bank holding companies to consult with it in advance of declaring dividends that could raise safety and soundness concerns (i.e., such as when the dividend is not supported by earnings or involves a material increase in the dividend rate) and in advance of repurchasing shares of common or preferred stock.

Federal Deposit Insurance. Deposits in the Bank are insured by the Deposit Insurance Fund of the FDIC up to a maximum amount, which is generally $250,000 per depositor, subject to aggregation rules. There is no unlimited insurance coverage for noninterest bearing transaction accounts. Rather, deposits held in noninterest bearing transaction accounts are aggregated with interest bearing deposits the owner may hold in the same ownership category, and the combined are insured up to at least $250,000. The Bank is subject to deposit insurance assessments by the FDIC pursuant to its regulations establishing a risk-related deposit insurance assessment system, based on the institution's capital levels and risk profile. Under the FDIC's risk-based assessment system, insured institutions are assigned to one of four risk-weighted categories based on supervisory evaluations, regulatory capital levels, and certain other factors with less risky institutions paying lower assessments. An institution's initial assessment rate depends upon the category to which it is assigned. There are also adjustments to a bank's initial assessment rates based on levels of long-term unsecured debt, secured liabilities in excess of 25% of domestic deposits and, for certain institutions, brokered deposit levels. Pursuant to FDIC rules adopted under the Dodd-Frank Act (described below), initial assessments ranged from 5 to 35 basis points of the institution's total assets minus its tangible equity. The Bank paid net deposit insurance assessments of $2.0 million during the year ended December 31, 2023. For 2023, the deposit insurance assessment rate before applying one-time assessment credits was approximately 0.100% of insured deposits. No institution may pay a dividend if it is in default of the federal deposit insurance assessment.

Under the Dodd-Frank Act, the FDIC is authorized to set the reserve ratio for the Deposit Insurance Fund at no less than 1.35% of estimated insured deposits, which is increased from the previous ratio of 1.15%. The FDIC must offset the effect of the increase in the minimum designated reserve ratio from 1.15% to 1.35% on insured depository institutions of less than $10 billion and may declare dividends to depository institutions when the reserve ratio at the end of a calendar quarter is at least 1.5%, although the FDIC has the authority to suspend or limit such permitted dividend declarations. The FDIC has set the designated reserve ratio for the deposit insurance fund at 2% of estimated insured deposits, which the FDIC has established as a long-term goal. As of September 30, 2021, the FDIC had announced that the ratio had declined to 1.30% due largely to the effects of the COVID-19 pandemic. The FDIC adopted a plan to restore the fund to the 1.35% ratio within eight years but did not change its assessment schedule.

Under the Dodd-Frank Act, the assessment base for deposit insurance premiums is calculated as average consolidated total assets minus average tangible equity. Tangible equity for this purpose means Tier 1 capital. The rate schedules set forth in the rule governing the assessment base are scaled to the increase in the assessment base, including schedules that go into effect as the reserve ratio reaches 1.15%, 2%, and 2.5%.

The schedules reduce the initial base assessment rate in each of the four risk-based pricing categories.

- For small Risk category I banks, the rates range from 5-9 basis points.
- The rates for small institutions in Risk Categories II, III and IV are 14, 23 and 35 basis points, respectively.
- For large institutions and large, highly complex institutions, the rate schedule ranges from 5 to 35 basis points.

There are also adjustments made to the initial assessment rates based on long-term unsecured debt, depository institution debt, and brokered deposits. The FDIC also provides for an assessment system for large depository institutions with over $10 billion in assets.

The FDIC has the authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. Management cannot predict what insurance assessment rates will be in the future.

The FDIC may terminate the deposit insurance of any insured depository institution if the FDIC determines, after a hearing, that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe and unsound condition to continue operations or has violated any applicable law, regulation, order or any condition imposed in writing by, or written agreement with, the FDIC. The FDIC may also suspend deposit insurance temporarily during the hearing process for a permanent termination of insurance if the institution has no tangible capital.

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank of Indianapolis, which is one of eleven regional Federal Home Loan Banks. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It is funded primarily from funds deposited by member institutions and proceeds from the sale of consolidated obligations of the Federal Home Loan Bank system. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the board of trustees of the Federal Home Loan Bank. As a member, the Bank is required to purchase and maintain stock in the Federal Home Loan Bank of Indianapolis in an amount equal to the greater of 1% of its aggregate unpaid residential mortgage loans, home purchase contracts or similar obligations at the beginning of each year or 5% of our outstanding advances from the Federal Home Loan Bank. At December 31, 2023, the Bank was in compliance with this requirement.

At December 31, 2023, the Bancorp owned $6.5 million of stock of the Federal Home Loan Bank of Indianapolis (“FHLBI”). The FHLBI stock entitles the Bancorp to dividends from the FHLBI. The Bancorp recognized dividend income of approximately $290 thousand in 2023. At December 31, 2023, the Bancorp’s excess borrowing capacity based on collateral from the FHLBI was $592.6 million. Generally, the loan terms from the FHLBI are better than the terms the Bancorp can receive from other sources making it cheaper to borrow money from the FHLBI.

Federal Reserve System. Under regulations of the FRB, the Bank is required to maintain reserves against its transaction accounts (primarily checking accounts) and non-personal money market deposit accounts. The effect of these reserve requirements is to increase the Bank’s cost of funds. The Bank is in compliance with its reserve requirements.

Community Reinvestment Act. Under the Community Reinvestment Act (“CRA”), the Bank has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution’s discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the FDIC in connection with its examination of the Bank, to assess its record of meeting the credit needs of its community and to take that record into account in its evaluation of certain applications by the Bank. For example, the regulations specify that a bank’s CRA performance will be considered in its expansion (e.g., branching) proposals and may be the basis for approving, denying or conditioning the approval of an application. As of the date of its most recent regulatory examination, the Bank was rated “satisfactory” with respect to its CRA compliance.

Gramm-Leach-Bliley Act. Under the Gramm-Leach-Bliley Act ("Gramm-Leach"), bank holding companies are permitted to offer their customers virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. In order to engage in these new financial activities, a bank holding company must qualify and register with the FRB as a "financial holding company" by demonstrating that each of its bank subsidiaries is well capitalized, well managed and has at least a satisfactory rating under the CRA. As previously discussed, the Bancorp has elected to become a financial holding company under Gramm-Leach.

Gramm-Leach established a system of functional regulation, under which the federal banking agencies regulate the banking activities of financial holding companies, the U.S. Securities and Exchange Commission regulates their securities activities and state insurance regulators regulate their insurance activities.

Under Gramm-Leach, federal banking regulators adopted rules limiting the ability of banks and other financial institutions to disclose nonpublic information about consumers to nonaffiliated third parties. The rules require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to nonaffiliated third parties. The privacy provisions of Gramm-Leach affect how consumer information is transmitted through diversified financial services companies and conveyed to outside vendors.

The Bancorp does not disclose any nonpublic information about any current or former customers to anyone except as permitted by law and subject to contractual confidentiality provisions which restrict the release and use of such information.

Cybersecurity Guidelines. The federal banking agencies have adopted guidelines for establishing information security standards and cybersecurity programs for implementing safeguards under the supervision of the board of directors. These guidelines, along with related regulatory materials, increasingly focus on risk management and processes related to information technology and the use of third parties in the provision of financial services. In October 2016, the federal banking agencies issued an advance notice of proposed rulemaking on enhanced cybersecurity risk-management and resilience standards that would apply to large and interconnected banking organizations and to services provided by third parties to these firms. These enhanced standards would apply only to depository institutions and depository institution holding companies with total consolidated assets of $50 billion or more, which would not currently include the Bancorp. However, similar standards and/or regulations may be adopted or implemented by federal and state banking agencies in the future which may be applicable to community banking organizations such as the Bancorp.

Recent cyberattacks against banks and other financial institutions that resulted in unauthorized access to confidential customer information have prompted the federal banking regulators to issue extensive guidance on cybersecurity. Among other things, financial institutions are expected to design multiple layers of security controls to establish lines of defense and ensure that their risk management processes address the risks posed by compromised customer credentials, including security measures to authenticate customers accessing internet-based services. A financial institution also should have a robust business continuity program to recover from a cyberattack and procedures for monitoring the security of third-party service providers that may have access to nonpublic data at the institution. During 2023, the Bancorp did not discover any material cybersecurity incidents.

Consumer Financial Protection Bureau. The Dodd-Frank Act established the Consumer Financial Protection Bureau ("CFPB") within the Federal Reserve, which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of Gramm-Leach and certain other statutes. Many of the consumer financial protection functions formerly assigned to the federal banking and other designated agencies are now performed by the CFPB. The CFPB has a large budget and staff, and has the authority to implement regulations under federal consumer protection laws and enforce those laws against, and examine, financial institutions. The CFPB has examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Smaller institutions are subject to rules promulgated by the CFPB but continue to be examined and supervised by the federal banking regulators for consumer compliance purposes. The CFPB has the authority to prevent unfair, deceptive or abusive practice in connection with the offering of consumer financial products. Additionally, this bureau is authorized to collect fines and provide consumer restitution in the event of violations, engage in consumer financial education, track consumer complaints, request data, and promote the availability of financial services to underserved consumers and communities.

Moreover, the Dodd-Frank Act authorized the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower's ability to repay. In addition, the CFPB has published several final regulations impacting the mortgage industry, including rules related to ability-to-pay, mortgage servicing, and mortgage loan originator compensation. The ability-to-repay rule makes lenders liable if they fail to assess ability to repay under a prescribed test, but also creates a safe harbor for so-called "qualified mortgages." Failure to comply with the ability-to-repay rule may result in possible CFPB enforcement action and special statutory damages plus actual, class action, and attorneys' fees damages, all of which a borrower may claim in defense of a foreclosure action at any time. The Dodd-Frank Act also permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations. Federal preemption of state consumer protection law requirements, traditionally an attribute of the federal savings association charter, also was modified by the Dodd-Frank Act and requires a case-by-case determination of preemption by the OCC and eliminates preemption for subsidiaries of a bank. Depending on the implementation of this revised federal preemption standard, the operations of the Bank could become subject to additional compliance burdens in the states in which it operates.

Mortgage Reform and Anti-Predatory Lending . Title XIV of the Dodd-Frank Act, the Mortgage Reform and Anti-Predatory Lending Act, includes a series of amendments to the Truth In Lending Act with respect to mortgage loan origination standards affecting, among other things, originator compensation, minimum repayment standards and pre-payments. With respect to mortgage loan originator compensation, except in limited circumstances, an originator is prohibited from receiving compensation that varies based on the terms of the loan (other than the principal amount). The amendments to the Truth In Lending Act also prohibit a creditor from making a residential mortgage loan unless it determines, based on verified and documented information of the consumer's financial resources, that the consumer has a reasonable ability to repay the loan. The amendments also prohibit certain pre-payment penalties and require creditors offering a consumer a mortgage loan with a pre-payment penalty to offer the consumer the option of a mortgage loan without such a penalty. In addition, the Dodd-Frank Act expands the definition of a "high-cost mortgage" under the Truth In Lending Act, and imposes new requirements on high-cost mortgages and new disclosure, reporting and notice requirements for residential mortgage loans, as well as new requirements with respect to escrows and appraisal practices.

Interchange Fees for Debit Cards. Under the Dodd-Frank Act, interchange fees for debit card transactions must be reasonable and proportional to the issuer's incremental cost incurred with respect to the transaction plus certain fraud related costs. Although institutions with total assets of less than $10 billion are exempt from this requirement, competitive pressures have required smaller depository institutions to reduce fees with respect to these debit card transactions.

Federal Securities Law. The shares of Common Stock of the Bancorp have been registered with the SEC under the Exchange Act. The Bancorp is subject to the periodic reporting, proxy solicitation, insider trading restrictions and other requirements of the Exchange Act and the rules of the SEC promulgated there under. If the Bancorp has fewer than 1,200 record shareholders, it may deregister its shares under the Exchange Act and cease to be subject to the foregoing requirements.

Shares of the Bancorp's Common Stock held by persons who are affiliates of the Bancorp may not be resold without registration unless sold in accordance with the resale restrictions of Rule 144 under the Securities Act of 1933. If the Bancorp meets the current public information requirements under Rule 144, each affiliate of the Bancorp who complies with the other conditions of Rule 144 (including those that require the affiliate's sale to be aggregated with those of certain other persons) would be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of (i) 1% of the outstanding shares of the Bancorp or (ii) the average weekly volume of trading in such shares during the preceding four calendar weeks.

Under the Dodd-Frank Act, the Bancorp is required to provide its shareholders an opportunity to vote on the executive compensation payable to its named executive officers and on golden parachute payments in connection with mergers and acquisitions. These votes are non-binding and advisory. At least once every six years, the Bancorp must also permit shareholders to determine on an advisory basis whether such votes should be held every one, two, or three years.

Federal Reserve Monetary Policies. The Bancorp's earnings and growth, as well as the earnings and growth of the banking industry in general, are affected by the monetary and credit policies of monetary authorities, including the FRB. An important function of the FRB is to regulate the national supply of bank credit in order to combat recession and curb inflationary pressures. Among the instruments of monetary policy used by the FRB to implement these objectives are open market operations in U.S. government securities, changes in reserve requirements against member bank deposits, and changes in the Federal Reserve discount rate. These instruments are used in varying combinations to influence overall growth of bank loans, investments, and deposits, and may also affect interest rates charged on loans or paid for deposits. The monetary policies of the FRB have had a significant impact on the operating results of financial institutions in the past and are expected to continue to have effects in the future.

In view of continually changing conditions in the national economy and in money markets, as well as the effect of credit policies by monetary and fiscal authorities, including the FRB, it is difficult to predict the impact of possible future changes in interest rates, deposit levels, and loan demand, or their effect on the Bancorp's business and earnings or on the financial condition of the Bancorp's various customers.

Other Future Legislation and Change in Regulations. Various other legislation, including proposals to expand or contract the powers of banking institutions and bank holding companies, is from time to time introduced. This legislation may change banking statutes and the operating environment of the Bancorp and the Bank in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions and other financial institutions. The Bancorp cannot accurately predict whether any of this potential legislation will ultimately be enacted, and, if enacted, the ultimate effect that it, or implementing regulations, would have upon the financial condition or results of operations of the Bancorp or the Bank.

Federal Taxation

For federal income tax purposes, the Bank reports its income and expenses on the accrual method of accounting. The Bancorp and the Bank file a consolidated federal income tax return for each fiscal year ending December 31.

State Taxation

The Bank is subject to Indiana's Financial Institutions Tax ("FIT"), which is imposed at a flat rate on "adjusted gross income," subject to scheduled decreases as described herein. For 2023, this rate was 4.9%. Additionally, the Bank is subject to Illinois state tax which is imposed at a flat rate of 9.5%. "Adjusted gross income," for purposes of the FIT begins with taxable income as defined by Section 63 of the Internal Revenue Code of 1986, as amended (the "Code") and, thus, incorporates federal tax law to the extent that it affects the computation of taxable income. Federal taxable income is then adjusted by several Indiana and Illinois modifications. Other applicable state taxes include generally applicable sales and use taxes plus real and personal property taxes.

Accounting for Income Taxes

At December 31, 2023, the Bancorp has consolidated total deferred tax assets of $31.4 million and consolidated total deferred tax liabilities of $3.3 million, resulting in a consolidated net deferred tax asset of $28.1 million.

Item 1A. Risk Factors

An investment in our common stock involves risks. Before making any decision whether to invest in our common stock, you should carefully consider the risks described below, together with all of the other information included in this report. These risks are not the only ones we will face. Additional risks not presently known to us or that we currently deem immaterial may also affect our business operations, financial condition, and results of operations. Our business, financial condition, or results of operations could be materially adversely affected by any of these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. Also, please read "*Cautionary Note Regarding Forward-Looking Statements.*"

Risks Related to Our Business

As a financial institution, the Bancorp is subject to a number of risks relating to its daily business.

As a financial institution, we are subject to a number of risks relating to our daily business. Although we undertake a variety of efforts to manage and control those risks, many of the risks are outside of our control. Among the risks we face are the following:

- *Credit Risk* – the risk that loan customers or other parties will be unable to perform their contractual repayment obligations.
- *Market Risk* – the risk that changes in market rates and prices will adversely affect our financial condition and results of operations.
- *Liquidity Risk* – the risk that the Bancorp or the Bank will have insufficient cash or access to cash to meet its operating needs.
- *Operational Risk* – the risk of financial and reputational loss resulting from fraud, inadequate or failed internal processes, cyber-security breaches, people and systems, or external events.
- *Economic Risk* – the risk that the economy in our markets could decline, resulting in increased unemployment, decreased real estate values, and increased loan charge-offs.

- *Compliance Risk* – the risk of additional action by our regulators or additional regulation that could hinder our ability to do business profitably.

- *Regulatory Risk* – the risk presented by the need to comply with all laws, rules, and regulations from multiple regulatory agencies, including but not limited to the FDIC, the Consumer Financial Protection Bureau, the IDFI, the FRB, the SEC, and the U.S. Department of Labor.

- *Fiduciary Risk* – the risk of failing to act in our fiduciary capacity in the best interests of the grantors and beneficiaries of trust accounts and benefit plans.

The Bancorp is subject to liquidity risk in its operations, which could adversely affect the ability to fund various obligations.

Liquidity risk is the possibility of being unable to meet obligations as they come due, pay deposits when withdrawn, capitalize on growth opportunities as they arise, or pay dividends because of an inability to liquidate assets or obtain adequate funding on a timely basis, at a reasonable cost and within acceptable risk tolerances. Liquidity is derived primarily from retail deposit growth and retention, principal and interest payments on loans and investment securities, net cash provided from operation, and access to other funding sources. Liquidity is essential to our business. We must maintain sufficient funds to respond to the needs of depositors and borrowers. An inability to raise funds through deposits, borrowings, the sale or pledging as collateral of loans and other assets could have a material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn, failures of other financial institutions which reduces overall market confidence in the banking and financial services industry, or regulatory action that limits or eliminates our access to alternate funding sources. Our ability to borrow could also be impaired by factors that are nonspecific to us, such as severe disruption of the financial markets or negative expectations about the prospects for the financial services industry, as evidenced by the recent failures of certain depository institutions and the resulting market turmoil and volatility stemming from such failures.

Unrealized losses in the Bancorp's investment portfolio could affect liquidity.

The increase in market interest rates experienced in 2022 and the early months of 2023, caused the Bancorp to experience increased unrealized losses within its investment portfolio. The Bancorp's investment portfolio consists of 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. All of the instruments held in the Bancorp's investment portfolio are designated as AFS, and many of these instruments are particularly sensitive to interest rate fluctuations, especially long-term fixed-income securities, including U.S. Treasury notes and bonds and corporate and municipal bonds. As of December 31, 2023, the Bancorp held approximately $238.7 million of municipal securities within the investment portfolio, which comprised approximately 64.2% of the portfolio, and approximately $123.5 million of collateralized mortgage obligations and residential mortgage-backed securities within the portfolio, which comprised approximately 33.2% of the portfolio. From December 31, 2022 to December 31, 2023, the investment portfolio experienced unrealized gains of approximately $16.7 million. The decrease in unrealized losses is reflected in Accumulated Other Comprehensive Income (Loss) (AOCI) on the Bancorp's balance sheet and reduces the Bancorp's book capital and tangible common equity ratio. However, unrealized losses do not affect the Bancorp's regulatory capital ratios.

Management continues to actively monitor the investment portfolio and does not currently anticipate the need to realize losses from the investment portfolio, and it is unlikely the Bancorp will be required to sell the securities before recovery of their amortized cost bases, which may be at maturity. However, the Bancorp's access to liquidity sources could be affected by unrealized losses if securities within the investment portfolio must be sold at a loss or tangible capital ratios decline from an increase in unrealized losses or realized credit losses.

Above average interest rate risk associated with fixed-rate loans may have an adverse effect on our financial position or results of operations.

Peoples Bank's loan portfolio includes a significant amount of loans with fixed rates of interest. At December 31, 2023, $681.4 million, or 45.2% of the Bank's total loans receivable had fixed interest rates. The Bank offers adjustable rate mortgage (ARM) loans and fixed-rate loans. Unlike ARM loans, fixed-rate loans carry the risk that, because they do not reprice to market interest rates, their yield may be insufficient to offset increases in the Bank's cost of funds during a rising interest rate environment. Accordingly, a material and prolonged increase in market interest rates could be expected to have a greater adverse effect on the Bank's net interest income compared to other institutions that hold a materially larger portion of their assets in ARM loans or fixed-rate loans that are originated for committed sale in the secondary market.

Higher loan losses could require the Bancorp to increase its Allowance for credit losses through a charge to earnings.

When we loan money, we incur the risk that our borrowers will not repay their loans. We reserve for loan losses by establishing an allowance through a charge to earnings. The amount of this allowance is based on our assessment of loan losses inherent in our loan portfolio. The process for determining the amount of the allowance is critical to our financial results and condition. It requires subjective and complex judgments about the future, including forecasts of economic or market conditions that might impair the ability of our borrowers to repay their loans. We might underestimate the loan losses inherent in our loan portfolio and have loan losses in excess of the amount reserved. We might increase the allowance because of changing economic conditions. For example, in a rising interest rate environment, borrowers with adjustable rate loans could see their payments increase. There may be a significant increase in the number of borrowers who are unable or unwilling to repay their loans, resulting in our charging off more loans and increasing our allowance. In addition, when real estate values decline, the potential severity of loss on a real estate-secured loan can increase significantly, especially in the case of loans with high combined loan-to-value ratios. Our Allowance for credit losses at any particular date may not be sufficient to cover future loan losses. We may be required to increase our Allowance for credit losses, thus reducing earnings.

Commercial business lending may expose the Bancorp to increased lending risks.

At December 31, 2023, the Bank's commercial business loan portfolio amounted to $97.4 million, or 6.5% of total loans. Subject to market conditions and other factors, the Bank intends to expand its commercial business lending activities within its primary market areas. Commercial business lending is inherently riskier than residential mortgage lending. Although commercial business loans are often collateralized by equipment, inventory, accounts receivable, or other business assets, the liquidation value of these assets in the event of a borrower default is often an insufficient source of repayment because accounts receivable may be uncollectible and inventories and equipment may be obsolete or of limited use, among other things.

Commercial real estate lending may expose the Bancorp to increased lending risks.

At December 31, 2023, the Bank's commercial real estate loan portfolio amounted to $503.2 million, or 33.4% of total loans. Commercial real estate lending is inherently riskier than residential mortgage lending. Because payments on loans secured by commercial properties often depend upon the successful operation and management of the properties or related businesses, repayment of such loans may be affected by adverse conditions in the real estate market or the economy, among other things. Further, these loans typically have larger loan balances, and several of our borrowers have more than one commercial real estate loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to significantly greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan. Finally, if we foreclose on a commercial real estate loan, our holding period for the collateral, if any, typically is longer than for one-to four-family residential mortgage loans because there are fewer potential purchasers of the collateral. Because we plan to continue to emphasize the origination of these loans, it may be necessary to increase our allowance for loan losses because of the increased credit risk associated with these types of loans. Any increase to our allowance for loan losses would adversely affect our earnings.

Our mortgage lending profitability could be significantly reduced if we are not able to resell mortgages at a reasonable gain on sale or experience other problems with the secondary market process or we are unable to retain our mortgage loan sales force due to regulatory changes.

Currently, we sell a large portion of the mortgage loans we originate. The profitability of our mortgage banking operations depends in large part upon our ability to aggregate a high volume of loans and to sell them in the secondary market at a gain. Thus, we are dependent upon the existence of an active secondary market and our ability to profitably sell loans into that market.

Our ability to sell mortgage loans readily is dependent upon the availability of an active secondary market for single-family mortgage loans, which in turn depends in part upon the continuation of programs currently offered by Fannie Mae, Freddie Mac, and Ginnie Mae (the “Agencies”) and other institutional and non-institutional investors. These entities account for a substantial portion of the secondary market in residential mortgage loans. Some of the largest participants in the secondary market, including the Agencies, are government-sponsored enterprises whose activities are governed by federal law. Any future changes in laws that significantly affect the activity of such government-sponsored enterprises could, in turn, adversely affect our operations.

In September 2008, Fannie Mae and Freddie Mac were placed into conservatorship by the U.S. government. Although to date, the conservatorship has not had a significant or adverse effect on our operations, and during 2010 and 2012 the Federal Housing Finance Agency indicated that the Treasury Department is committed to funding Fannie Mae and Freddie Mac to levels needed in order to sufficiently meet their funding needs, it is currently unclear whether further changes would significantly and adversely affect our operations. In addition, our ability to sell mortgage loans readily is dependent upon our ability to remain eligible for the programs offered by the Agencies and other institutional and non-institutional investors. Our ability to remain eligible may also depend on having an acceptable peer-relative delinquency ratio for the Federal Housing Administration (“FHA”) and maintaining a delinquency rate with respect to Ginnie Mae pools that are below Ginnie Mae guidelines.

Any significant impairment of our eligibility with any of the Agencies could materially and adversely affect our operations. Further, the criteria for loans to be accepted under such programs may be changed from time-to-time by the sponsoring entity which could result in a lower volume of corresponding loan originations. The profitability of participating in specific programs may vary depending on a number of factors, including our administrative costs of originating and purchasing qualifying loans and our costs of meeting such criteria.

Our mortgage lending profitability could be significantly reduced as changes in interest rates could affect mortgage origination volume and pricing for selling mortgages on the secondary market.

Currently, we sell a large portion of the mortgage loans we originate. The profitability of our mortgage banking operations depends in large part upon our ability to originate and sell mortgages to the secondary market at a gain. A higher interest rate environment can negatively affect the volume of loan originations and refinanced loans reducing the dollar amount of loans available to be sold to the secondary market. Higher interest rates can also negatively affect the premium received on loans sold to the secondary market as competitive pressures to originate loans can reduce pricing.

Our information systems may experience an interruption or breach in security.

The Bank relies heavily on internal and outsourced digital technologies, communications, and information systems to conduct its business. As our reliance on technology systems increases, the potential risks of technology-related operation interruptions in our customer relationship management, general ledger, deposit, loan, or other systems or the occurrence of cyber incidents also increases. Cyber incidents can result from deliberate attacks or unintentional events including (i) unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruptions; (ii) denial-of-service attacks on websites; or (iii) intelligence gathering and social engineering aimed at obtaining information. The occurrence of operational interruption, cyber incident, or a deficiency in the cyber security of our technology systems (internal or outsourced) could negatively impact our financial condition or results of operations.

We have policies and procedures expressly designed to prevent or limit the effect of a failure, interruption, or security breach of our systems and maintain cyber security insurance. However, such policies, procedures, or insurance may prove insufficient to prevent, repel, or mitigate a cyber incident. Significant interruptions to our business from technology issues could result in expensive remediation efforts and distraction of management. Although we have not experienced any material losses related to a technology-related operational interruption or cyber-attack, there can be no assurance that such failures, interruptions, or security breaches will not occur in the future or, if they do occur, that the impact will not be substantial.

The occurrence of any failures, interruptions, or security breaches of our technology systems could damage our reputation, result in a loss of customer business, result in the unauthorized release, gathering, monitoring, misuse, loss, or destruction of proprietary information, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition, results of operations, or stock price. As cyber threats continue to evolve, we may also be required to spend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

We are subject to certain operational risks, including, but not limited to, customer or employee fraud and data processing system failures and errors.

Employee errors and employee and/or customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation or financial performance. Misconduct by our employees could include, but is not limited to, hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers, or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence.

We maintain a system of internal controls and insurance coverage to mitigate against operational risks, including data processing system failures and errors and customer or employee fraud. If our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, financial condition, and results of operations.

We depend on outside third parties for processing and handling of our records and data.

The Bank relies on software developed by third party vendors to process various transactions. In some cases, we have contracted with third parties to run their proprietary software on our behalf. These systems include, but are not limited to, general ledger, payroll, employee benefits, loan and deposit processing, and securities portfolio management. While we perform a review of controls instituted by the vendors over these programs in accordance with industry standards and perform our own testing of user controls, we must rely on the continued maintenance of these controls by the outside party, including safeguards over the security of customer data. In addition, we maintain backups of key processing output daily in the event of a failure on the part of any of these systems. Nonetheless, we may incur a temporary disruption in the ability to conduct our business or process our transactions or incur damage to our reputation if the third party vendor fails to adequately maintain internal controls or institute necessary changes to systems. Such disruption or breach of security may have a material adverse effect on our financial condition and results of operations.

We continually encounter technological change.

The banking and financial services industry continually undergoes technological changes, with frequent introductions of new technology-driven products and services. In addition to better meeting customer needs, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, in part, on our ability to address the needs of our customers by using technology to provide products and services that enhance customer convenience and that create additional efficiencies in our operations. Many of our competitors have greater resources to invest in technological improvements, and we may not effectively implement new technology-driven products and services or do so as quickly as our competitors, which could reduce our ability to effectively compete. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse effect on our business, financial condition, and results of operations.

We may not be able to attract and retain skilled people.

The Bank’s success depends on its ability to attract and retain skilled people. Competition for the best people in most activities in which we engage can be intense, and we may not be able to hire people or retain them. The unexpected loss of services of certain of our skilled personnel could have a material adverse impact on our business because of their skills, knowledge of our market, years of industry experience, customer relationships, and the difficulty of promptly finding qualified replacement personnel.

Loss of key employees may disrupt relationships with certain customers.

Our customer relationships are critical to the success of our business, and loss of key employees with significant customer relationships may lead to the loss of business if the customers were to follow that employee to a competitor. While we believe our relationships with key personnel are strong, we cannot guarantee that all of our key personnel will remain with the organization, which could result in the loss of some of our customers and could have a negative impact on our business, financial condition, and results of operations.

We may need to raise additional capital in the future, and such capital may not be available when needed or at all.

We may need to raise additional capital in the future to fund acquisitions and to provide us with sufficient capital resources and liquidity to meet our commitments, regulatory capital requirements, and business needs, particularly if our asset quality or earnings were to deteriorate significantly. We periodically explore acquisition opportunities with other financial institutions, some of which may be in a less favorable financial condition than we are. Any future acquisition, particularly the acquisition of a significantly troubled institution or an institution of comparable size to us, may require us to raise additional capital in order to obtain regulatory approval and/or to remain well capitalized.

Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial performance. Economic conditions and the loss of confidence in financial institutions may increase our cost of funding and limit access to certain customary sources of capital, including inter-bank borrowings, repurchase agreements, and borrowings from the discount window of the Federal Reserve.

We cannot guarantee that such capital will be available on acceptable terms or at all. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of debt purchasers, our depositors or counterparties participating in the capital markets, may adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity. Moreover, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed could have a materially adverse effect on our business, financial condition, and results of operations and may restrict our ability to grow.

We may be exposed to risk of environmental liabilities with respect to real property to which we take title.

In the course of our business, we may own or foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties (including liabilities for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination), or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property.

We are exposed to intangible asset risk in that our goodwill may become impaired.

As of December 31, 2023, we had $25.7 million of goodwill and other intangible assets. A significant and sustained decline in our stock price and market capitalization, a significant decline in our expected future cash flows, a significant adverse change in the business climate, or slower growth rates could result in impairment of goodwill. If we were to conclude that a future write-down of our goodwill is necessary, then we would record the appropriate charge, which could be materially adverse to our operating results and financial position. For further discussion, see Notes 1 and 6, "*Summary of Significant Accounting Policies*" and "*Goodwill and Other Intangible Assets*," to the Consolidated Financial Statements included in Item 8 this report.

Damage to our reputation could damage our business.

Our business depends upon earning and maintaining the trust and confidence of our customers, investors, and employees. Damage to our reputation could cause significant harm to our business and prospects. Harm to our reputation can arise from numerous sources, including, among others, employee misconduct, compliance failures, litigation, regulatory outcomes, or governmental investigations. In addition, a failure to deliver appropriate standards of service and quality, or a failure or perceived failure to treat customers and clients fairly, can result in customer dissatisfaction, litigation, privacy breach, and heightened regulatory scrutiny, all of which can lead to lost revenue, higher operating costs, and harm to our reputation. Adverse publicity about the Bancorp, whether or not true, may result in harm to our existing business, customer relationships and prospects. Should any events or factors that can undermine our reputation occur, there is no assurance that the additional costs and expenses that we may need to incur to address the issues giving rise to the reputational harm would not adversely affect our earnings and results of operations.

Potential acquisitions may disrupt our business and dilute stockholder value.

We periodically evaluate merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions and financial services companies. We generally seek merger or acquisition partners that are culturally similar and possess either significant market presence or have potential for improved profitability through financial management, economies of scale, or expanded services. Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including, among other things:

- potential exposure to unknown or contingent liabilities of the target company;
- exposure to potential asset quality issues of the target company;
- potential disruption to our business;
- potential diversion of our management's time and attention away from day-to-day operations;
- the possible loss of key employees, business, and customers of the target company;
- difficulty in estimating the value of the target company; and
- potential problems in integrating the target company's data processing and ancillary systems, customers, and employees with ours.

As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving the payment of cash or the issuance of our debt or equity securities may occur at any time. Acquisitions typically involve the payment of a premium over book, and, therefore, some dilution of our tangible book value and net income per common share may occur in connection with any future transaction. To the extent we were to issue additional shares of common stock in any such transaction, our current shareholders would be diluted and such an issuance may have the effect of decreasing our stock price, perhaps significantly. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on our financial condition and results of operations. In addition, merger and acquisition costs incurred by the Bancorp may temporarily increase operating expenses.

The Bancorp and Bank are subject to extensive regulation and oversight, including with respect to the Order and MOU.

On November 7, 2023, the Bank entered into a Stipulation and Consent to the Issuance of a Consent Order with its bank regulatory agencies, the FDIC and DFI, consenting to the issuance of a consent order (the “Order”) relating to the Bank’s compliance with the Bank Secrecy Act and its implementing regulations (collectively, the “BSA”). In consenting to the issuance of the Order, the Bank did not admit or deny any charges of unsafe or unsound banking practices or violations of law or regulation relating to its BSA compliance. Under the terms of the Order, the Bank or its board of directors is required to take certain affirmative actions to comply with the Bank’s obligations under the BSA. These include, but are not limited to, the following: strengthening the board of directors’ oversight of BSA activities; developing, adopting, and implementing a revised BSA compliance program; developing a revised system of internal controls designed to ensure full compliance with the BSA; retaining management qualified to oversee the Bank’s BSA compliance program, including retaining a qualified BSA officer; assessing BSA staffing needs and identifying staff positions and personnel for BSA compliance; developing, adopting, and implementing a revised BSA training program; developing, adopting, and implementing a revised suspicious activity reporting program; implementing a board-approved customer due diligence program, and reviewing and enforcing enhanced customer due diligence and risk assessment procedures; eliminating or correcting certain violations of BSA law and regulations, and correcting BSA program weaknesses; ensuring that all reports required by the BSA are accurately and properly filed; and developing and implementing a written plan to review past account and transaction activity to determine whether suspicious activity was properly identified and reported. In addition, under the MOU the Bank has agreed to take various actions and comply with certain requirements to enhance certain areas of the Bank’s operations, including, among other things, the Bank refraining from paying cash dividends without prior regulatory approval and developing and implementing certain plans regarding the Bank’s operations, capital, and strategy.

The Order is expected to result in additional non-interest BSA compliance expenses for the Bank and the Bancorp. It also may have the effect of limiting or delaying the Bank’s and the Bancorp’s ability to obtain regulatory approval for certain expansionary activities, to the extent desired by the Bancorp. Our failure to comply with the Order or MOU may result in additional regulatory action, including civil money penalties against the Bank and its officers and directors or enforcement through court proceedings, which could have a material and adverse effect on our business, results of operations, financial condition, cash flows, and stock price.

Risks Related to the Banking Industry

Our business may be adversely affected by conditions in the financial markets and economic conditions generally.

Our financial performance depends to a large extent on the business environment in our geographically concentrated eight-county market area of Lake, Porter, LaPorte, and Newton counties in Indiana, and Cook, DuPage, Lake, and Will counties in Illinois, the nearby suburban metropolitan Chicagoland market, the states of Indiana and Illinois, and the U.S. as a whole. In particular, the current environment impacts the ability of borrowers to pay interest on and repay principal of outstanding loans as well as the value of collateral securing those loans. A favorable business environment is generally characterized by economic growth, low unemployment, efficient capital markets, low inflation, high business and investor confidence, strong business earnings, and other factors. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity, or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment; natural disasters; or a combination of these or other factors.

In the recent past, our market area, the suburban metropolitan Chicagoland market, the states of Indiana and Illinois, and the U.S. as a whole experienced a downward economic cycle. Significant weakness in market conditions adversely impacted all aspects of the economy. Business activity across a wide range of industries and regions was greatly reduced, and local governments and many businesses experienced serious difficulty due to the lack of consumer spending and the lack of liquidity in the credit markets. In addition, unemployment increased significantly during that period, which further contributed to the adverse business environment for households and businesses.

While economic conditions have improved, significant challenges remain, including continued elevated inflation levels and recent uncertainty in the financial institutions industry. As a result, there can be no assurance that the economic recovery will continue, and future deterioration would likely exacerbate the adverse effects of recent difficult market conditions on us and others in the financial institutions industry. Market stress could have a material adverse effect on the credit quality of our loans, and therefore, our financial condition and results of operations as well as other potential adverse impacts including:

- There could be an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility, and widespread reduction of business activity generally.
- There could be an increase in write-downs of asset values by financial institutions, such as the Bank.
- There could be the loss of collateral value on commercial and real estate loans that are secured by real estate located in our market area. A further significant decline in real estate values in our market would mean that the collateral for many of our loans would provide less security. As a result, we would be more likely to suffer losses on defaulted loans because our ability to fully recover on defaulted loans by selling the real estate collateral would be diminished.
- Our ability to assess the creditworthiness of customers could be impaired if the models and approaches they use to select, manage, and underwrite credits become less predictive of future performance.
- The process we use to estimate losses inherent in our loan portfolio requires difficult, subjective, and complex judgments. This process includes analysis of economic conditions and the impact of these economic conditions on borrowers' ability to repay their loans. The process could no longer be capable of accurate estimation and may, in turn, impact its reliability.
- The Bank could be required to pay significantly higher FDIC premiums in the future if losses further deplete the Deposit Insurance Fund.
- We could face increased competition due to intensified consolidation of the financial services industry. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition, and results of operations.

Future economic conditions in our market area will depend on factors outside of our control, such as political and market conditions, broad trends in industry and finance, legislative and regulatory changes, changes in government, military, and fiscal policies, and inflation.

Concern by customers over deposit insurance may cause a decrease in deposits and changes in the mix of funding sources available to the Bancorp.

With increased concerns regarding certain recent high profile bank failures, customers increasingly are concerned about the extent to which their deposits are insured by the FDIC. Customers may have insecurity regarding the extent to which their deposits exceed the current FDIC deposit insurance threshold of $250,000 per depositor and therefore are uninsured. The FDIC has extended deposit insurance relief to uninsured depositors in certain recent high profile bank failures, but there is no assurance the FDIC will extend such relief in connection with any other failure of a financial institution, which may cause uncertainty among customers regarding the safety of their deposits. Customers may withdraw deposits in an effort to ensure the amount they have on deposit with their bank is fully insured and some may seek deposit products or other bank savings and investment products that are collateralized. Decreases in deposits and changes in the mix of funding sources, particularly in light of recent high profile bank failures and customers' responses to such events, may adversely affect the Bancorp's liquidity, funding costs, and net income.

Turmoil in the financial markets could result in lower fair values for our investment securities.

Major disruptions in the capital markets experienced in recent years have adversely affected investor demand for all classes of securities, excluding U.S. Treasury securities, and resulted in volatility in the fair values of our investment securities. Significant prolonged reduced investor demand could manifest itself in lower fair values for these securities and may result in recognition of an other-than-temporary impairment ("OTTI"), which could have a material adverse effect on our financial condition and results of operations.

Municipal securities can also be impacted by the business environment of their geographic location. Although this type of security historically experiences extremely low default rates, municipal securities are subject to systemic risk since cash flows generally depend on (i) the ability of the issuing authority to levy and collect taxes; or (ii) the ability of the issuer to charge for and collect payment for essential services rendered. If the issuer defaults on its payments, it may result in the recognition of OTTI or a total loss, which could have a material adverse effect on our financial condition and results of operations.

We face strong competition in all phases of our business from other banks, financial institutions, and non-banks.

The banking and financial services business in our market areas is highly competitive. Our competitors include large regional banks, local community banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market mutual funds, credit unions, neo-banks (a digital or mobile-only bank that exists without any physical bank branches), and other non-bank financial and digital service providers, many of which have greater financial, marketing, and technological resources than us. Many of these competitors are not subject to the same regulatory restrictions that we are and may be able to compete more effectively as a result.

Also, technology and other changes have lowered barriers to entry and made it possible for customers to complete financial transactions using neo-banks, non-banks, and financial technology ("FinTech") companies that historically have involved banks at one or both ends of the transaction. These entities now offer products and services traditionally provided by community banks and often at lower costs. The wide acceptance of Internet-based commerce has resulted in a number of alternative payment processing systems, deposit, and lending platforms in which banks play only minor roles. For example, consumers can maintain funds that would have historically been held as bank deposits in brokerage accounts or mutual funds. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. Use of emerging alternative payment platforms, such as Apple Pay or Bitcoin or other cryptocurrencies, can alter consumer credit card behavior and consequently impact our interchange fee income.

The process of eliminating banks as intermediaries, known as "disintermediation," could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The effects of disintermediation can also impact the lending business because of the fast growing body of FinTech companies that use software to deliver mortgage lending and other financial services. A related risk is the migration of bank personnel away from the traditional bank environments into neo-banks, FinTech companies, and other non-banks.

Increased competition in our market may result in a decrease in the amounts of our loans and deposits, reduced spreads between loan rates and deposit rates or loan terms that are more favorable to the borrower. Any of these results could have a material adverse effect on our ability to maintain our earnings record, grow our loan portfolios, and obtain low-cost funds. If increased competition causes us to significantly discount the interest rates we offer on loans or increase the amount we pay on deposits, our net interest income could be adversely impacted. If increased competition causes us to relax our underwriting standards, we could be exposed to higher losses from lending activities. Additionally, many of our competitors are larger in total assets and capitalization, have greater access to capital markets, and offer a broader range of financial services than we can offer.

The Bancorp also is experiencing an increase in competition to acquire other banks, due to the overall strength of financial institutions and their high capital levels. In addition, credit unions and FinTech companies are now actively pursuing small bank acquisitions. Increased competition for bank acquisitions may slow the Bancorp's ability to grow earning assets at comparable historical growth rates.

We are subject to federal regulations that seek to protect the Deposit Insurance Fund and the depositors and borrowers of the Bank, and our federal regulators may impose restrictions on our operations that are detrimental to holders of the Bancorp's common stock.

We are subject to extensive regulation, supervision, and examination by the FRB, IDFI, and FDIC, our primary regulators. Such regulation and supervision governs the activities in which an institution and its holding company may engage and are intended primarily for the protection of the insurance fund and the depositors and borrowers of the Bank rather than for holders of the Bancorp's common stock. Our regulators may subject us to supervisory and enforcement actions, such as the imposition of certain restrictions on our operations, requirements that we take remedial action, the classification of our assets and the determination of the level of our Allowance for credit losses, that are aimed at protecting the insurance fund and the depositors and borrowers of the Bank but that are detrimental to holders of the Bancorp's common stock. Any change in our regulation or oversight, whether in the form of regulatory policy, regulations, legislation, or supervisory action, may have a material impact on our operations.

Acquisitions and the addition of branch facilities may not produce revenue enhancements or cost savings at levels or within timeframes originally anticipated and may result in unforeseen integration difficulties and dilution to existing shareholder value.

We regularly explore opportunities to establish branch facilities and acquire other banks or financial institutions. New or acquired branch facilities and other facilities may not be profitable. We may not be able to correctly identify profitable locations for new branches. The costs to start up new branch facilities or to acquire existing branches, and the additional costs to operate these facilities, may increase our noninterest expense and decrease earnings in the short term. It may be difficult to adequately and profitably manage growth through the establishment of these branches. In addition, we can provide no assurance that these branch sites will successfully attract enough deposits to offset the expenses of operating these branch sites. Any new or acquired branches will be subject to regulatory approval, and there can be no assurance that we will succeed in securing such approvals.

The soundness of other financial institutions could adversely affect us.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Many of these transactions expose us to credit risk in the event of default by our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. There is no assurance that any such losses would not materially and adversely affect our results of operations or earnings. In addition, failures of other financial institutions, including regional and community banks, could decrease customer confidence in the banking industry as a whole and community banks in particular. Reduced confidence in the financial institutions sector could result in customer disintermediation and the loss of deposit and borrowing relationships, among other effects, which could result in a material adverse effect on the Bancorp's financial condition and results of operations.

Risks Related to the Bancorp's Common Stock

An investment in the Bancorp's common stock is not an insured deposit.

The Bancorp's common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund, or by any other public or private entity. Investment in the Bancorp's common stock is inherently risky for the reasons described in this "*Risk Factors*" section and elsewhere in this prospectus and is subject to the same market forces that affect the price of common stock in any public company. As a result, if you acquire the Bancorp's common stock, you could lose some or all of your investment.

The price of our common stock may fluctuate, sometimes significantly, and this may make it difficult for you to resell our common stock at times or at prices you find attractive.

Although our common stock is listed on the Nasdaq Capital Market, our stock price constantly changes, and we expect our stock price to continue to fluctuate in the future. Our stock price is impacted by a variety of factors, some of which are beyond our control. These factors include:

- variations in our operating results or the quality of our assets;
- operating results that vary from the expectations of management, securities analysts, and investors;
- increases in loan losses, non-performing loans, and other real estate owned;
- changes in the U.S. corporate tax rates;
- changes in expectations as to our future financial performance;
- announcements of new products, strategic developments, new technology, acquisitions, and other material events by us or our competitors;
- ability to fund the Bancorp's assets through core deposits and/or wholesale funding;
- the operating and securities price performance of other companies that investors believe are comparable to us;
- actual or anticipated sales of our equity or equity-related securities;
- our past and future dividend practices;
- our creditworthiness;
- interest rates;
- the credit, mortgage, and housing markets, and the markets for securities relating to mortgages or housing;
- developments with respect to financial institutions generally; and
- economic, financial, geopolitical, regulatory, congressional, or judicial events that affect us or the financial markets.

In addition, the stock market in general has experienced price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies and particularly those in the financial services and banking sector, including for reasons unrelated to their operating performance. These broad market fluctuations may adversely affect our stock price, notwithstanding our operating results.

The trading volume in the Bancorp's common stock is less than that of other larger financial institutions.

Although the Bancorp's common stock is listed on the Nasdaq Capital Market, the trading volume in the common stock may be less than that of other, larger financial services companies. A public trading market having the desired characteristics of depth, liquidity, and orderliness depends on the presence in the marketplace of willing buyers and sellers of the Bancorp's common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Bancorp has no control. During any period of lower trading volume of the Bancorp's common stock, significant sales of shares of the Bancorp's common stock, or the expectation of these sales, could cause the Bancorp's common stock price to fall.

The Bancorp's Articles of Incorporation, Indiana law, and certain banking laws may have an anti-takeover effect.

Provisions of the Bancorp's Articles of Incorporation, the Indiana Business Corporation Law, and the federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire the Bancorp, even if doing so would be perceived to be beneficial by the Bancorp's shareholders. The combination of these provisions could have the effect of inhibiting a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of the Bancorp's common stock.

The Bancorp may issue additional securities, which could dilute the ownership percentage of holders of the Bancorp's common stock.

The Bancorp may issue additional securities to, among other reasons, raise additional capital or finance acquisitions, and, if it does, the ownership percentage of holders of the Bancorp's common stock could be diluted potentially materially.

We may not be able to pay dividends in the future in accordance with past practice.

The Bancorp has traditionally paid a quarterly dividend to common shareholders. The payment of dividends is subject to legal and regulatory restrictions. Any payment of dividends in the future will depend, in large part, on our earnings, capital requirements, financial condition, and other factors considered relevant by the Bancorp's board of directors. The board may, at its discretion, reduce or eliminate dividends or change its dividend policy in the future.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 1C. Cybersecurity

Our Board of Directors has delegated primary responsibility for oversight of cybersecurity risk management to the Risk Management Committee of the Board. The Committee receives quarterly reports from the Chief Information Security Officer (CISO) and Chief Risk Officer (CRO), respectively, and reviews them with such officers. These reports are made available to all board members concurrently. The CRO's report includes evaluation of the level of cybersecurity risks and strength of mitigating controls. All board members are invited to attend the portion of the Committee's meetings for review of reports received on risk management from management (e.g., the CRO, CISO, Chief Compliance Officer).

Our processes for assessing, identifying, and managing material risks from cybersecurity threats are based on examination guidance published by the Federal Financial Institution Examination Council (FFIEC), an interagency body established under the Financial Institutions Regulatory and Interest Rate Control Act of 1978. Consistent with FFIEC guidance, the Bank selected and adheres to the risk management framework established by the Cybersecurity Risk Institute known as the "CRI Profile." The CRI Profile is based primarily on the well-known National Institute of Standards and Technology's (NIST) "Framework for Improving Critical Infrastructure Cybersecurity" and is tailored to ensure expectations of financial institution regulators are met. Our processes are designed to meet standards for all seven CRI Profile functions – governance, identification, detection, protection, response, recovery, and supply chain dependency management. In addition, we adhere to security standards set by the PCI Security Standards Council which are designed to ensure secure payments globally.

Risks from cybersecurity threats, including risks identified from previous cybersecurity incidents, have required significant investments over time in maturing our Information Security Program and attracting and retaining the personnel with requisite experience and expertise. In particular, the CISO has substantial relevant expertise in the financial services industry and formal training in the areas of information security and cybersecurity risk management. We will need to continue to make meaningful investments in cybersecurity controls for continuous improvement and maturation in response to constantly evolving cybersecurity threats. Cybersecurity threats will continue to be endemic to the financial services industry for the foreseeable future.

Item 2. Properties

The Bancorp maintains its corporate office at 9204 Columbia Avenue, Munster, Indiana, from which it oversees the operation of the Bank’s 26 banking locations.

As of the date of this report, the Bank operated 14 branches in Northwest Indiana, with 13 of the branches located in Lake County and 1 branch located in Porter County, Indiana, and 11 branches located in Cook County, Illinois and 1 branch located in DuPage County, Illinois. The Bank owns 21 of its branch properties and leases 5 of its branch properties under the terms of long-term leases with a third-party. All of the Bank’s branches are equipped with automated teller machines and have drive-through facilities,with the exception of one branch that is under a short-term lease and does not have a drive-through.

The Bank outsources its core processing activities to Fidelity National Information Services, Inc., or FIS Corporation located in Jacksonville, Florida. FIS provides real time services for loans, deposits, retail delivery systems, card solutions, digital banking, and wealth management. The net book value of the Bank’s property, premises and equipment totaled $38.4 million at December 31, 2023.

Item 3. 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 4. Mine Safety Disclosures

Not applicable

Item 4.5 Information About Our Executive Officers

Pursuant to General Instruction G(3) of Form 10-K, the following information is included as an unnumbered item in this Part I in lieu of being included in the Bancorp's Proxy Statement for the 2023 Annual Meeting of Shareholders:

The executive officers of the Bancorp are as follows:

Executive Officer	Age at December 31, 2023	Position
Benjamin J. Bochnowski	43	President, Chief Executive Officer of Finward Bancorp, Chief Executive Officer of Peoples Bank
Robert T. Lowry	62	Executive Vice President, Chief Operating Officer
Todd M. Scheub	56	Executive Vice President, Chief Revenue Officer of Finward Bancorp, President of Peoples Bank
Benjamin L. Schmitt	43	Senior Vice President, Chief Financial Officer and Treasurer

The following is a description of the principal occupation and employment of the executive officers of the Bancorp during at least the past five years:

Benjamin J. Bochnowski currently serves as President and Chief Executive Officer of the Bancorp and the Chief Executive Officer of the Bank. Mr. Bochnowski joined the Bancorp in 2010, became Executive Vice President and Chief Operating Officer of the Bancorp in 2013, and was promoted to President and Chief Operating Officer in 2015. He became the Chief Executive Officer in 2016. He was appointed to the Board of the Indiana Department of Financial Institutions by the Governor of Indiana in 2019. He is the Chairman of the Indiana Bankers Association. He also serves as the Chairman of the Board of Directors of One Region, a non-profit business organization focused on population growth, and Allies for Community Business, a community-based micro-lending fund serving Chicago and the surrounding metropolitan area.

Robert T. Lowry is Executive Vice President, Chief Operating Officer of the Bancorp and the Bank. He is responsible for managing the overall day-to-day operations, which includes transformational change, facilities, commercial credit, as well as loan and deposit operations. Mr. Lowry has been with the Bank since 1985 and has previously served as the Bank's Chief Financial Officer, Treasurer, Controller, Internal Auditor and Assistant Controller. Mr. Lowry is a Certified Public Accountant (CPA) licensed in Indiana and a Chartered Global Management Accountant (CGMA). Mr. Lowry holds a Master's of Business Administration Degree from Indiana University and is a graduate of America's Community Bankers National School of Banking. Mr. Lowry has taught online courses for the American Bankers Association that focused on capital and liquidity management, interest rate risk and investments. Mr. Lowry is currently serving on the board of the Food Bank of Northwest Indiana and is a past board chairman and chair of the executive committee. In addition, Mr. Lowry volunteered for the IRS Volunteer Income Tax Assistance (VITA) program. He is a member of the American Institute of Certified Public Accountants and the Indiana CPA Society.

Todd M. Scheub is Executive Vice President, Chief Revenue Officer of the Bancorp and President of the Bank. He is responsible for the Bank's Wealth Management group, Retail Banking group, Marketing, Commercial, and Retail lending groups. Mr. Scheub joined the Bank in 1996 and has previously held positions in the commercial lending group. He provides oversight to the sales group in wealth management, retail banking, business and retail lending as well as chairing the Senior Officer's Loan Committee and the Executive Officer's Loan Committee. Additionally he provides oversight to the Bank's Marketing group. He is the liaison to the solutions group, risk management, executive management, and the Board of Directors on all items related to the Bank's sales groups. Mr. Scheub holds a Bachelor of Science Degree in Business and a Master's Degree in Business Administration from Indiana University Northwest. He also graduated from America's Community Bankers National School of Banking. Mr. Scheub is a Board Member at Lake County Economic Alliance, and the Indiana University Northwest Business School Advisory Board.

Benjamin L. Schmitt is Senior Vice President, Chief Financial Officer and Treasurer of the Bancorp and the Bank. Mr. Schmitt joined the Bancorp and Bank in 2024. He previously served as President of Rally Consulting LLC from August 2023 to February 2024, where he advised on special projects and managed strategic efforts of commercial and community banking clients. Prior to that, Mr. Schmitt served as Managing Director within the financial services investment banking group at Piper Sandler Companies from January 2020 to June 2023, where he advised banking clients on capital raising, merger and acquisition transactions, and other strategic advisory assignments. Previously, he worked at Sandler O'Neill & Partners, L.P. in a similar capacity serving banking clients, as Director from January 2013 to January 2020, and held other investment banking advisory positions at Sandler O'Neill from September 2004 to December 2012. Mr. Schmitt began his career as an investment analyst from 2003 to 2004 at Mercer Investment Consulting. Mr. Schmitt received his Bachelor of Business Administration degree in Finance with Honors from the University of Iowa Tippie College of Business.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Bancorp's Common Stock is listed on the Nasdaq Capital Market under the symbol "FNWD." As of March 28, 2024, the Bancorp had 4,304,026 shares of common stock outstanding and 549 stockholders of record. This does not reflect the number of persons or entities who may hold their stock in nominee or "street" name through brokerage firms.

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 is reviewed annually by the Board of Directors. No shares were repurchased during the year ended December 31, 2023 under the stock repurchase program.

Period	Total Number of Shares Purchased (2)	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, 2023 – January 31, 2023	-	N/A	-	48,828
February 1, 2023 – February 28, 2023	-	N/A	-	48,828
March 1, 2023 – March 31, 2023	4,188	$37.45	-	48,828
April 1, 2023 – April 30, 2023	-	N/A	-	48,828
May 1, 2023 – May 31, 2023	798	$28.88	-	48,828
June 1, 2023 – June 30, 2023	698	$22.80	-	48,828
July 1, 2023 – July 31, 2023	-	N/A	-	48,828
August 1, 2023 – August 31, 2023	-	N/A	-	48,828
September 1, 2023 – September 30, 2023	-	N/A	-	48,828
October 1, 2023 –October 31, 2023	-	N/A	-	48,828
November 1, 2023 – November 30, 2023	-	N/A	-	48,828
December 1, 2023 – December 31, 2023	-	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.

(2) The number of shares above consist of shares of common stock reacquired from the Bancorp's executive officers and employees to satisfy the tax withholding obligations on restricted stock awards granted under the Bancorp's 2015 Stock Option and Incentive Plan. For the year ended December 31, 2023, 5,684 shares were reacquired at an average per share price of $34.45 pursuant to these tax withholding transactions.

Item 6. [Reserved]

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The Bancorp's earnings are dependent upon the earnings of the Bank. The Bank's earnings are primarily dependent upon net interest margin. The net interest margin is the difference between interest income earned on loans and investments and interest expense paid on deposits and borrowings stated as a percentage of average interest earning assets. The net interest margin is perhaps the clearest indicator of a financial institution's ability to generate core earnings. Fees and service charges, wealth management operations income, gains and losses from the sale of assets, provisions for credit losses, income taxes and operating expenses also affect the Bancorp's profitability.

A summary of the Bancorp's significant accounting policies are detailed in Note 1 to the Bancorp's consolidated financial statements included in this report. Preparing financial statements in conformity with accounting principles generally accepted in the United States of America 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 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 credit losses are particularly susceptible to material change in the near term.

At December 31, 2023, the Bancorp had total assets of $2.1 billion and total deposits of $1.8 billion. The Bancorp's deposit accounts are insured up to applicable limits by the Deposit Insurance Fund (DIF) that is administered by the Federal Deposit Insurance Corporation (FDIC), an agency of the federal government. At December 31, 2023, stockholders' equity totaled $147.3 million, with book value per share at $34.28. Net income for 2023 was $8.4 million, or $1.96 diluted earnings per common share. The return on average assets was 0.40%, while the return on average stockholders' equity was 6.28%.

Recent Developments within the Banking Industry

During the first half of 2023, the banking industry experienced significant volatility with multiple high-profile bank failures and industry wide concerns related to liquidity, deposit outflows, uninsured deposit concentrations, unrealized securities losses, and eroding consumer confidence in the banking system. In this regard, in March 2023, Silicon Valley Bank and Signature Bank were closed and taken over by the Federal Deposit Insurance Corporation (FDIC). In addition, on May 1, 2023, the FDIC was appointed as receiver for First Republic Bank, and on that same date JPMorgan Chase acquired the substantial majority of the assets and assumed the deposits and certain other liabilities of First Republic Bank from the FDIC receivership. These bank failures were driven principally by rapid withdrawals by depositors with large uninsured balances held at these institutions and losses incurred by these banks in liquidating their bond portfolios to provide liquidity to fund these deposit outflows. The FDIC determined that Silicon Valley Bank and Signature Bank were systemically important and fully guaranteed their depositor balances above the $250,000 FDIC insurance limit. Given the sharp increase in market interest rates during 2022 and 2023, most financial institutions' bond portfolios continue to have significant unrealized loss positions even though some of these unrealized losses were recovered during the latter part of 2023 as the interest rate environment stabilized.

In response to these bank failures and the volatility in the banking industry, on March 12, 2023, the Federal Reserve Board announced the creation of a new Bank Term Funding Program (the "BTFP"). The BTFP offers loans of up to one year to banks, savings associations, credit unions, and other eligible depository institutions pledging U.S. Treasury securities, agency debt and mortgage-backed securities, and other qualifying assets as collateral. These assets are valued at par for purposes of the collateral pledge under the BTFP. The BTFP expired on March 11, 2024, with a one year extension option at the discretion of each participant.

In connection with these negative industry developments, the Bancorp has proactively managed its liquidity position and balance sheet in order to remain flexible and respond to further economic, industry, and regulatory conditions. The Bancorp's total deposits as of December 31, 2023 increased by 2.2% as compared to December 31, 2022, while core deposits as of December 31, 2023 decreased by 9.2% as compared to December 31, 2022. The increase in deposit balances and decrease in core deposits is related to customer preferences for the Bancorp's higher yielding certificate of deposit products. The Bancorp's uninsured deposits represented 29% of total deposits at December 31, 2023 and 2022. The Bancorp's funding base also includes public funds in the state of Indiana that are insured by the Indiana Public Deposit Insurance Fund (PDIF). The funds covered by the PDIF at December 31, 2023 were $217.6 million, compared with $188.6 million at December 31, 2022. This would further increase the total level of insured deposits at the Bancorp above those funds covered by the FDIC. The Bancorp also took a number of preemptive actions, which included proactive outreach to clients and actions to maximize its funding sources in response to these recent developments. In this regard, during 2023 the Bancorp participated in the Federal Reserve BTFP by accessing $100 million of low-cost capital under the program, which was reduced to $80 million by the end of 2023. Furthermore, the Bancorp's capital remains in excess of all required thresholds to be considered "well capitalized" under the FDIC's risk-based capital guidelines, with common equity Tier 1 and total capital ratios of 10.40% and 11.40%, respectively, as of December 31, 2023.

Recent Developments - Allowance for Credit Losses

The allowance for credit losses represents management's estimate of expected credit losses over the expected contractual life of our existing loan portfolio and the establishment of an allowance that is sufficient to absorb those losses. As of January 1, 2023, we adopted ASU2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* , as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as current expected credit losses (CECL). Determining the appropriateness of the allowance is complex and requires judgement by management about the effect of matters that are inherently uncertain. In determining an appropriate allowance, management makes numerous judgments, assumptions, and estimates which are inherently subjective, as they require material estimates that may be susceptible to significant change. These estimates are derived based on continuous review of the loan portfolio, assessments of client performance, movement through delinquency stages, probability of default, losses given default, collateral values, and disposition, as well as expected cash flows, economic forecasts, and qualitative factors, such as changes in current economic conditions. As stated in Note 4 to our consolidated financial statements set forth herein, we segment our loan portfolios based on similar risk characteristics for collective evaluation using a non-discounted cash flow approach to estimate expected losses. We use a PD/LGD (probability of default/loss given default) model which aligns well with our internal risk rating system. Actual losses may differ from estimated amounts due to model inefficiencies or management's inability to adequately determine appropriate model adjustment factors. The new accounting standard further requires management to use forecasts about future economic conditions to determine the expected credit losses over the remaining life of the asset. Forecast adjustments are fundamentally difficult to establish and, in the current environment, due to uncertainty given the potential recession and political environment, the task is even more formidable. We use a two-year reasonable and supportable period across all loan segments to forecast economic conditions. We believe the two-year time horizon aligns with available industry guidance and various forecasting sources. In assessing the factors used to derive an appropriate allowance, management benefits from a lengthy organizational history and experience with credit decisions and related outcomes but is new to the application of CECL. We have been diligent in our efforts to gain a thorough understanding of the accounting standard, and have reviewed our portfolios, loan segmentations, methodologies and models and believe we have made appropriate and prudent decisions. Nonetheless, if management's underlying assumptions prove to be inaccurate, the Allowance for credit losses would have to be adjusted. Our accounting policies related to the allowance for credit losses is disclosed in the section titled "Critical Accounting Policies" under the heading "Allowance for Credit Losses."

Regulatory Developments Regarding the Bancorp and the Bank

Consent Order

On November 7, 2023, the Bank entered into a Stipulation and Consent to the Issuance of a Consent Order (the "Stipulation") with the FDIC and the Indiana Department of Financial Institutions ("DFI"), consenting to the issuance of a consent order (the "Order") relating to the Bank's compliance with the Bank Secrecy Act and its implementing regulations (collectively, the "BSA"). In consenting to the issuance of the Order, the Bank did not admit or deny any charges of unsafe or unsound banking practices or violations of law or regulation relating to its BSA compliance. The Order is based on findings of the FDIC and DFI during their joint examination commencing in February 2023 (the "Examination"). The board of directors and management of the Bancorp and the Bank have aggressively taken an active role in working to address the findings contained in the Examination and have proactively taken steps to comply with the requirements of the Order prior to its effectiveness, as further discussed below.

Under the terms of the Order, the Bank or its board of directors is required to take certain affirmative actions to comply with the Bank's obligations under the BSA. These affirmative actions include, but are not limited to, the following: strengthening the board of directors' oversight of the Bank's BSA activities; developing, adopting, and implementing a revised BSA compliance program; developing a revised system of internal controls designed to ensure full compliance with the BSA; retaining management qualified to oversee the Bank's BSA compliance program, including retaining a qualified BSA officer; assessing BSA staffing needs and identifying staff positions and personnel for BSA compliance; developing, adopting, and implementing a revised BSA training program; developing, adopting, and implementing a revised suspicious activity reporting program; implementing a board-approved customer due diligence program, and reviewing and enforcing enhanced customer due diligence and risk assessment procedures; eliminating or correcting certain violations of BSA law and regulations, and correcting BSA program weaknesses; ensuring that all reports required by the BSA are accurately and properly filed; and developing and implementing a written plan to review past account and transaction activity to determine whether suspicious activity was properly identified and reported.

Prior to implementation, certain of the actions required by the Order are subject to review by, and approval or non-objection from, the FDIC and the DFI. The Order will remain in effect and enforceable until it is modified, terminated, suspended, or set aside by the FDIC and DFI.

Numerous actions have already been taken or commenced by the Bank to strengthen its BSA and anti-money laundering compliance practices, policies, procedures, and controls. In this regard, the Bank began developing corrective actions prior to the entry of the Order and expects that it will be able to undertake and implement all required actions within the time periods specified in the Order. These actions include, without limitation, the formation of a Risk Management and Compliance Committee of the board of directors, consisting solely of independent directors, to assist the board in overseeing compliance efforts; enhancing the Bank's risk management and compliance programs through restructuring reporting lines; improving technology and increasing BSA compliance staff, including hiring senior personnel; making additional investments into processes and system upgrades to strengthen anti-money laundering controls; enhancing education and training of the Bank's employees responsible for BSA and anti-money laundering compliance; and conducting a look-back review of accounts and transaction activity covering the time periods from February 1, 2022 to March 31, 2023 to identify and properly report suspicious activity. In this regard, and as previously announced, the Bancorp and Bank also appointed David J. Kwait as Senior Vice President, General Counsel, Corporate Secretary, and Chief Risk Officer, overseeing the Bank's enhanced risk management infrastructure, including BSA compliance.

The Bank will incur additional non-interest expenses associated with the implementation of the corrective actions set forth in the Order. However, these expenses are not expected to have a material impact on the results of operations or financial condition of the Bancorp or the Bank.

Memorandum of Understanding

On November 7, 2023, the Bank entered into a memorandum of understanding ("MOU") with the FDIC and DFI. The MOU is an informal administrative agreement pursuant to which the Bank has agreed to take various actions and comply with certain requirements to enhance certain areas of the Bank's operations. The MOU documents an understanding among the Bank, the FDIC, and DFI that, among other things, the Bank will: refrain from paying cash dividends without prior regulatory approval and develop and implement certain plans regarding the Bank's operations, capital, and strategy. The Bank will submit written quarterly progress reports to the FDIC and DFI detailing compliance with the MOU. The MOU will remain in effect until modified or terminated by the FDIC and DFI.

Management does not expect the actions called for by these regulatory actions to have a substantial impact on the Bancorp's or the Bank's ongoing day-to-day operations, although they may have the effect of limiting or delaying the Bancorp's or the Bank's ability or plans to expand and engage in business combinations.

Financial Condition

During the year ended December 31, 2023, total assets increased by $37.9 million (1.8%), to $2.1 billion, with interest-earning assets increasing by $52.5 million (2.8%). At December 31, 2023, interest-earning assets totaled $2.0 billion and represented 92.9% of total assets. Loans totaled $1.5 billion and represented 77.2% of interest-earning assets, 71.7% of total assets and 83.4% of total deposits. The loan portfolio, which is the Bancorp's largest asset, is a significant source of both interest and fee income.

(Dollars in thousands)	December 31, 2023 Balance	December 31, 2023 % Loans	December 31, 2022 Balance	December 31, 2022 % Loans
Residential real estate	$ 484,948	32.1%	$ 484,595	32.1%
Home equity	46,599	3.1%	38,978	2.6%
Commercial real estate	503,202	33.4%	486,431	32.2%
Construction and land development	115,227	7.6%	108,926	7.2%
Multifamily	219,917	14.6%	251,014	16.6%
Consumer	610	0.0%	918	0.1%
Manufactured Homes	30,845	2.0%	34,882	2.3%
Commercial business	97,386	6.5%	93,278	6.2%
Government	10,021	0.7%	9,549	0.7%
Loans receivable	1,508,755	100.0%	1,508,571	100.0%
Plus:				
Net deferred loans origination costs	3,705		5,083	
Undisbursed loan funds	135		(23)	
Loans receivable, net of deferred fees and costs	$ 1,512,595		$ 1,513,631	
Adjustable rate loans / loans receivable	$ 681,444	45.2%	$ 698,842	46.3%

	December 31, 2023	December 31, 2022
Loans receivable to total assets	71.7%	73.1%
Loans receivable to earning assets	77.2%	79.4%
Loans receivable to total deposits	83.4%	85.3%

Commercial real estate loans remained our largest loan segment and accounted for 33.4% of the total loan portfolio at December 31, 2023 and 32.2% at December 31, 2022. A further breakdown of the composition of the commercial real estate loan portfolio as of December 31, 2023 is shown in the table below:

Commercial Real Estate (CRE) 12/31/2023*
($millions)

	# Loans		$ Amount	% of Total Net Loans
CRE Owner Occupied (CRE OO)				
Food Services & Drinking Places	67	$	31.2	2.1%
Ambulatory Health Care Services	34		28.4	1.9%
Gasoline Stations & Fuel Dealers	23		25.7	1.7%
Merchant Wholesalers, Durable Goods	16		13.4	0.9%
Other	311		121.4	8.0%
Total CRE Owner Occupied (CRE OO)	451	$	220.0	14.6%
CRE Non Owner Occupied (CRE NOO)				
Strip Centers - Lessors	157	$	124.1	8.2%
Hotels	16		42.5	2.8%
Office Properties - Lessors	54		41.2	2.7%
Industrial Properties - Lessors	59		38.9	2.6%
Special Use - Lessors	12		10.9	0.7%
Big Box Retail - Lessors	2		8.5	0.6%
Mini Warehouses - Lessors	16		7.9	0.5%
Other	14		9.1	0.6%
Total CRE Non Owner Occupied (CRE NOO)	330		283.2	18.8%
Total Commercial Real Estate (OO & NOO)	781	$	503.2	33.4%
Total Net Loans		$	1,508.8	

*North American Industry Classification System (NAICS) classification coding for CRE loans began in 2023, similar NAICS 2022 proforma was not available to report

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 year ended December 31, 2023, the Bank originated $37.9 million in new fixed rate mortgage loans for sale, compared to $44.9 million during the year ended December 31, 2022. During the year ended December 31, 2023, the Bank originated $41.6 million in new 1-4 family loans retained in its portfolio, compared to $105.4 million during the year ended December 31, 2022. These retained loans are primarily construction loans and adjustable-rate loans with a fixed-rate period of 7 years or less, and the Bank continues to sell longer-duration fixed rate mortgages into the secondary market. Net gains realized from the mortgage loan sales totaled $1.1 million for the year ended December 31, 2023, compared to $1.4 million for the year ended December 31, 2022. At December 31, 2023, the Bancorp had $340 thousand in loans that were classified as held for sale, compared to $1.5 million at December 31, 2022.

Non-performing loans include those loans that are 90 days or more past due and accruing and those loans that have been placed on non-accrual status. At December 31, 2023, all non-performing loans are also accounted for on a non-accrual basis, except for thirty residential real estate loans totaling $1.1 million, and one commercial loan totaling $712 thousand that remained accruing and more than 90 days past due.

The Bancorp's nonperforming loans are summarized below:

(Dollars in thousands)

Loan Segment	December 31, 2023	December 31, 2022
Residential real estate	$ 2,824	$ 5,513
Home equity	468	594
Commercial real estate	1,545	3,242
Construction and land development	-	-
Multifamily	3,715	7,064
Commercial business	2,897	1,881
Consumer	2	-
Manufactured homes	-	82
Government	-	-
Total	$ 11,451	$ 18,376
Nonperforming loans to total loans	0.76%	1.21%
Nonperforming loans to total assets	0.54%	0.89%

Substandard loans include non-performing loans and 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 December 31, 2023 or December 31, 2022.

The Bancorp's substandard loans are summarized below:

(Dollars in thousands)

Loan Segment	December 31, 2023	December 31, 2022
Residential real estate	$ 2,098	$ 6,035
Home equity	479	612
Commercial real estate	2,544	7,421
Construction and land development	-	-
Multifamily	4,245	7,064
Commercial business	2,896	1,881
Consumer	2	-
Manufactured homes	-	-
Government	-	-
Total	$ 12,264	$ 23,013

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	December 31, 2023	December 31, 2022
Residential real estate	$ 3,084	$ 1,338
Home equity	168	385
Commercial real estate	7,434	4,955
Construction and land development	6,902	2,346
Multifamily	-	1,859
Commercial business	1,610	703
Consumer	-	-
Manufactured homes	-	-
Government	-	-
Total	$ 19,198	$ 11,586

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. 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 credit losses.

A loan is considered collateral dependent 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.

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 concession to a borrower experiencing financial difficulty. The valuation basis for these modified loans 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 following table shows the amortized cost of loans at December 31, 2023, that were both experiencing financial difficulty and modified during the year ended December 31, 2023, segregated by portfolio segment and type of modification. The percentage of the amortized cost of loans that were modified to borrowers in financial distress as compared to the amortized cost of each segment of financial receivable is also presented below.

	For the year ended December 31, 2023				
(Dollars in thousands)	Payment Delay	Term Extension	Interest Rate Reduction	Combination Term Extension and Interest Rate Reduction	% of Total Segment Financing Receivables
Residential Real Estate	$ -	$ 868	$ -	$ -	0.18%
Total	$ -	$ 868	$ -	$ -	0.06%

There were no commitments to lend additional amounts to the borrowers included in the previous table.

The Bancorp closely monitors the performance of loans and leases that have been modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table shows the performance of such loans that have been modified during the year ended December 31, 2023.

(Dollars in thousands)	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due
Residential Real Estate	$ 868	$ -	$ -	$ -
Total	$ 868	$ -	$ -	$ -

The borrowers with term extension have had their maturity dates extended and as a result their monthly payments were reduced.

Upon the Bancorp's determination that a modified loan has subsequently been deemed uncollectible, the loan or lease is written off. Therefore, the amortized cost of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

At December 31, 2023, management is of the opinion that there are no loans, except certain of those discussed above, 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 loan modification. 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 provision for credit losses represents a charge to earnings necessary to establish an allowance for credit losses that, in management's evaluation, is appropriate to provide coverage for current expected credit losses in the loan and lease portfolio. The allowance for credit losses is increased by the provision for credit losses and is decreased by charge-offs, net of recoveries on prior charge-offs. The determination of the amounts of the ACL and provisions for credit 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 ACL 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 credit losses given the current risk estimates.

The ACL 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 credit losses for the current period, management has considered risks associated with the local economy, changes in loan balances and mix, and asset quality.

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 $3.5 million and $4.6 million as of December 31, 2023, and 2022, respectively, and is included in net deferred loan origination cost.

The Bancorp's allowance to total loans and non-performing loans are summarized below:
(Dollars in thousands)

	12/31/2023	12/31/2022
Allowance for credit losses	$ 18,768	$ 12,897
Total loans	$ 1,512,595	$ 1,513,631
Non-performing loans	$ 11,451	$ 18,376
ACL-to-total loans	1.24%	0.85%
ACL-to-non-performing loans (coverage ratio)	163.9%	70.2%

The December 31, 2023, balance in the ACL account is considered adequate by management after extensive analysis performed in accordance with the provisions of the current expected credit loss model. While management may periodically allocate portions of the allowance for specific problem loans, the whole allowance is available for any loan charge offs that occur. The allocation of the ACL reflects performance and growth trends within the various loan categories, as well as consideration of the facts and circumstances that affect the repayment of individual loans, and loans which have been pooled as of the evaluation date, with particular attention given to non-performing loans and loans which have been classified as substandard, doubtful or loss. Management has allocated reserves to both performing and non-performing loans based on current information available.

During 2023, net sales of foreclosed real estate totaled $77 thousand and net losses from the 2023 sales totaled $13 thousand.

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, U.S. treasury securities, federal agency obligations, obligations of state and local municipalities and corporate securities. The securities portfolio totaled $371.4 million at December 31, 2023, compared to $370.9 million at December 31, 2022, an increase of $478 thousand or 0.1%. The increase is attributable to decreased unrealized losses within the portfolio. At December 31, 2023, the securities portfolio represented 19.0% of interest-earning assets and 17.6% of total assets compared to 19.5% of interest-earning assets and 17.9% of total assets at December 31, 2022.

As of December 31, 2023, the Bancorp’s two investments in trust preferred securities were in “payment in kind” status. Payment in kind status results in a temporary delay in the payment of interest. As a result of a delay in the collection of the interest payments, management placed these securities on non-accrual status. At December 31, 2023, the cost basis of the two trust preferred securities on non-accrual status totaled $2.2 million.

The carrying value of the Bancorp's investment portfolio and other short-term investments and stock balances at December 31, 2023 and 2022 were as follows:

(Dollars in thousands)	December 31, 2023 Balance	December 31, 2023 % Securities	December 31, 2022 Balance	December 31, 2022 % Securities
U.S. government sponsored entities	$ 7,883	2.1%	$ 7,625	2.1%
U.S. treasury securities	-	0.0%	389	0.1%
Collateralized mortgage obligations and residential mortgage-backed securities	123,464	33.2%	134,116	36.2%
Municipal securities	238,670	64.3%	227,718	61.3%
Collateralized debt obligations	1,357	0.4%	1,048	0.3%
Total securities available-for-sale	$ 371,374	100.0%	$ 370,896	100.0%

(Dollars in thousands)	December 31, 2023 Balance	December 31, 2022 Balance	YTD Change $	%
Interest bearing deposits in other financial institutions	$ 67,647	$ 11,210	$ 56,437	503.5%
Fed funds sold	419	107	312	291.6%
Certificates of deposit in other financial institutions	-	2,456	(2,456)	-100.0%
Federal Home Loan Bank stock	6,547	6,547	-	-

The net increase in interest bearing deposits in other financial institutions is primarily the result of the timing of investments in interest earning assets relative to the inflow and outflow of deposits and repurchase agreements.

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)	December 31, 2023 Balance	December 31, 2022 Balance	YTD Change $	%
Checking	$ 653,529	$ 755,377	$ (101,848)	-13.5%
Savings	302,782	402,365	(99,583)	-24.7%
Money market	324,993	254,157	70,836	27.9%
Certificates of deposit	532,117	363,118	168,999	46.5%
Total deposits	$ 1,813,421	$ 1,775,017	$ 38,404	2.2%

On December 31, 2023, balances for certificates of deposit totaled $532.1 million, compared to $363.1 million on December 31, 2022, an increase of $169.0 million or 46.5%. The decrease in core deposits and increase in certificate of deposit balances is related to customer preferences for higher yielding 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)	December 31, 2023 Balance	December 31, 2022 Balance	YTD Change $	%
Repurchase agreements	$ 38,124	$ 15,503	$ 22,621	145.9%
Borrowed funds	80,000	120,000	(40,000)	-33.3%
Total borrowed funds	$ 118,124	$ 135,503	$ (17,379)	-12.8%

Repurchase agreements increased as part of normal account fluctuations within that product line. Borrowed funds decreased due to cyclical inflows and outflows of interest-earning assets and interest-bearing 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 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 2023, cash and cash equivalents increased $54.7 million compared to a decrease of $1.9 million for 2022. The primary sources of cash and cash equivalents were proceeds from the sale of loans originated for sale, proceeds from the sale of securities, proceeds from the maturity and paydown of securities, and proceeds from the Federal Reserve's BTFP. The primary uses of cash and cash equivalents were the payment of dividends, change in deposits, and loan originations. During 2023, net cash from operating activities totaled $24.2 million, compared to $17.7 million for 2022. Cash provided from operating activities was primarily a result of net income, sale of loans originated for sale and net change in other assets, accrued expenses, and other liabilities, offset by loans originated for sale and gain on sale of loans held-for-sale. Net cash inflows from investing activities totaled $15.0 million during 2023, compared to outflows of $1.1 million during 2022. Cash inflows from investing activities were primarily related to the net change in loans receivable and purchase of securities, offset against the proceeds from the sales and maturities of securities and certificates of deposit in other financial institutions. Net cash inflows from financing activities totaled $15.5 million in 2023, compared to net cash outflows of $18.5 million in 2022. The net cash flows from financing activities were primarily a result of net change in deposits, proceeds from borrowings, the net change in repurchase agreements and dividends paid.

Management strongly believes that safety and soundness is enhanced by maintaining a high level of capital. Stockholders' equity totaled $147.3 million at December 31, 2023, compared to $136.4 million at December 31, 2022, an increase of $11.0 million (8.0%). The increase was primarily the result of net income of $8.4 million and a decrease in net unrealized losses on available for sale securities of $12.7 million, which were partially offset by a decrease from the impact of adoption of ASU No. 2016-13 totaling $6.1 million and dividends of $4.5 million. At December 31, 2023, book value per share was $34.28 compared to $31.73 for 2022.

The following table shows that, at December 31, 2023, the Bank's capital exceeded all 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	
December 31, 2023	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1 capital to risk-weighted assets	$ 168.3	10.4%	$ 72.6	4.5%	$ 104.9	6.5%
Tier 1 capital to risk-weighted assets	$ 168.3	10.4%	$ 96.9	6.0%	$ 129.1	8.0%
Total capital to risk-weighted assets	$ 183.3	11.4%	$ 129.1	8.0%	$ 161.4	10.0%
Tier 1 capital to adjusted average assets	$ 168.3	7.8%	$ 86.6	4.0%	$ 108.2	5.0%

The Bancorp's ability to pay dividends to its shareholders is largely 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. In addition, under the terms of the MOU, the Bank must seek regulatory approval prior to paying cash dividends. See "– Regulatory Developments Regarding the Bancorp and the Bank – Memorandum of Understanding" above. 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. The aggregate amount of dividends that the Bank was eligible to declare in 2023, without the need for qualifying for an exemption or prior DFI approval, was its 2023 net income. On December 26, 2023, the Board of Directors of the Bancorp declared a fourth quarter dividend of $0.12 per share. The Bancorp's fourth quarter dividend was paid to shareholders on February 5, 2024.

Results of Operations –
Comparison of 2023 to 2022

Net income for 2023 was $8.4 million, compared to $15.1 million for 2022, a decrease of $6.7 million (44.4%). The decrease is primarily due to lower net interest income, an increase in the provision for credit losses and a decrease in noninterest income, which were partially offset by a decrease in noninterest expenses and a decrease in income tax expense. The earnings represent a return on average assets of 0.40% for 2023, compared to 0.74% for 2022. The return on average equity was 6.28% for 2023, compared to 10.47% for 2022.

Net interest income for 2023, was $54.6 million, a decrease of $12.6 million (18.8%) from $67.1 million for 2022. The decreased net interest margin is primarily the result of the increase in short-term interest rates relative to long-term interest rates as part of the Federal Reserve's response to high inflation and other factors. The compression seen in 2023 may continue moderately, unless target rates decrease, and our interest-bearing liabilities can be repriced at those lower rates. The weighted-average yield on interest-earning assets was 4.45% for 2023, compared to 3.81% for 2022. The weighted-average cost of funds was 1.96% for 2023, compared to 0.33% for 2022. The impact of the 4.45% return on interest earning assets and the 1.96% cost of funds resulted in a net interest spread of 2.49% for 2023, compared to a net interest spread of 3.48% for 2022. During 2023, total interest income increased by $13.7 million (19.1%) while total interest expense increased by $26.3 million (539.1%). The net interest margin was 2.83% for 2023, compared to 3.56% for 2022. The Bancorp's tax equivalent net interest margin for 2023, was 2.98% compared to 3.74% for 2022. Comparing the net interest margin on a tax equivalent basis more accurately compares the returns on tax-exempt loans and securities to those on taxable interest-earning assets.

The increase in interest earning asset income for the year ended December 31, 2023, compared to the year ended December 31, 2022, is primarily related to increased reinvestment rates in 2023 for loans, securities, and excess cash balances, as a result of the Federal Reserve rate increases occurring throughout 2023. The increase in interest bearing liability expense is primarily the result of the Bancorp adjusting deposit and repurchase agreement pricing to align with the current interest rate cycle, along with increased borrowing costs as a result of the Federal Reserve rate increases.

The following table shows the change in noninterest income for the year ending December 31, 2023, and December 31, 2022.

(Dollars in thousands, except per share data)	Year Ended December 31,		YTD 12/31/2023 vs. 12/31/2022	
	2023	2022	$ Change	% Change
Noninterest income:				
Fees and service charges	$ 6,024	$ 6,257	$ (233)	-3.7%
Wealth management operations	2,484	2,113	371	17.6%
Gain on sale of loans held-for-sale, net	1,081	1,368	(287)	-21.0%
Gain (loss) on sale of securities, net	(48)	662	(710)	-107.3%
Increase in cash value of bank owned life insurance	766	810	(44)	-5.4%
Gain (loss) on sale of foreclosed real estate	(13)	16	(29)	-181.3%
Other	452	283	169	59.7%
Total noninterest income	$ 10,746	$ 11,509	$ (763)	-6.6%

The decrease in fees and service charges is primarily the result of decreased lending fees earned resulting from lower loan volume year over year. The increase in wealth management operations is the result of higher fee income year over year due to customer base growth and market conditions. The decrease in gain on sale of loans is the result of a decline in the volume of loans sold due to the increases in interest rates in the economy during 2023 and 2022. We expect demand for fixed rate mortgage loans held-for-sale in the secondary market to be lower as borrowing rates on loans remain elevated.

The following table shows the change in noninterest expense for the year ending December 31, 2023, and December 31, 2022.

(Dollars in thousands, except per share data)	Year Ended December 31,		YTD 12/31/2023 vs. 12/31/2022	
	2023	2022	$ Change	% Change
Noninterest expense:				
Compensation and benefits	$ 27,655	$ 28,990	$ (1,335)	-4.6%
Occupancy and equipment	6,557	6,785	(228)	-3.4%
Data processing	4,734	6,750	(2,016)	-29.9%
Marketing	840	1,907	(1,067)	-56.0%
Impairment charge on assets held for sale	-	1,232	(1,232)	-100.0%
Federal deposit insurance premiums	2,003	1,228	775	63.1%
Professional services	1,603	1,211	392	32.4%
Net loss recognized on sale of premises and equipment	-	303	(303)	-100.0%
Other	11,839	13,694	(1,855)	-13.5%
Total noninterest expense	$ 55,231	$ 62,100	$ (6,869)	-11.1%

The decrease in compensation and benefits is primarily the result of nonrecurring expenses related to the acquisition of Royal Financial. The decrease in data processing expense is primarily the result of the data conversion expenses incurred in 2022 related to the acquisition of Royal Financial. The decrease in occupancy and equipment expense is primarily due to the elimination of expenses on three branches that were closed in 2022. The decrease in marketing is a result of nonrecurring expenses related to the Royal Financial acquisition advertising campaign in 2022. The decrease in impairment charge on assets held for sale is the result of prior year impairment on the carrying value of branches held for sale. The increase in federal deposit insurance premiums is primarily the result of growth of the Bank's average assets. The net loss recognized on sale of premises and equipment in 2022 resulted from the sale of a branch office. The resulting cost savings were redeployed into building a digital-forward foundation so that the Bancorp can better serve its customers. The decrease in other operating expenses is primarily the result of one-time expenses incurred in the prior year related to the acquisition of Royal Financial.

Income tax benefit for the year ended December 31, 2023, totaled $335 thousand, compared to income tax expense of $1.4 million for the year ended December 31, 2022, a decrease of $1.8 million (122.7%). The combined effective federal and state tax rate for the Bancorp was (4.16%) for the year ended December 31, 2023, compared to 8.9% for the year ended December 31, 2022.

Critical Accounting Estimates

Critical accounting estimates are those estimates made in accordance with generally accepted accounting principles 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 most critical accounting estimates are summarized below. Other accounting policies, including those related to the fair values of financial instruments and the status of contingencies, are summarized in Note 1 to the Bancorp's consolidated financial statements.

Valuation of Investment Securities – 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 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 determination of the need for an allowance for credit losses. Significant judgments are required in determining whether unrealized losses on securities are due to credit-related causes, as opposed to changes in interest rates in the economy, which include making assumptions regarding the estimated prepayments, loss assumptions and the change in interest rates.

We consider the following factors when determining credit-related 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; and an assessment of whether the Bancorp has (1) the intent to sell the debt securities or (2) more likely than not will be required to sell the debt securities before its anticipated market recovery. If either of these conditions is met, management will recognize credit-related impairment. If, in management's judgment, a credit-related 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. Management will utilize an independent valuation specialist to value securities semi-annually for credit-related impairment.

Allowance for credit losses – The Bancorp maintains an Allowance for credit losses ("ACL") to absorb probable incurred credit losses that arise from the loan portfolio. The ACL is increased by the provision for credit losses, and decreased by charge-offs net of recoveries. The determination of the amounts of the ACL and provisions for credit losses is based upon 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. The methodology used to determine the current year provision and the overall adequacy of the ACL includes a disciplined and consistently applied quarterly process that combines a review of the current position with a risk assessment worksheet. Factors that are taken into consideration in the analysis include an assessment of national and local economic trends, a review of current year loan portfolio growth and changes in portfolio mix, and an assessment of trends for loan delinquencies and loan charge-off activity. Particular attention is given to non-accruing loans and accruing loans past due 90 days or more, and loans that have been classified as substandard, doubtful, or loss. Changes in the provision are directionally consistent with changes in observable data.

Commercial and industrial, and commercial real estate loans that exhibit credit weaknesses and loans that have been classified as impaired are subject to an individual review. Where appropriate, ACL allocations are made to these loans based on management's assessment of financial position, current cash flows, collateral values, financial strength of guarantors, industry trends, and economic conditions. ACL allocations for homogeneous loans, such as residential mortgage loans and consumer loans, are based on historical charge-off activity and current delinquency trends. Management has allocated general reserves to both performing and non-performing loans based on historical data and current information available.

Risk factors for non-performing and internally classified loans are based on an analysis of either the projected discounted cash flows or the estimated collateral liquidation value for individual loans defined as substandard or doubtful. Estimated collateral liquidation values are based on established loan underwriting standards and adjusted for current mitigating factors on a loan-by-loan basis. Aggregate substandard loan collateral deficiencies are determined for residential, commercial real estate, commercial business, and consumer loan portfolios. These deficiencies are then stated as a percentage of the total substandard balances to determine the appropriate risk factors.

Risk factors for performing and non-classified loans are based on a weighted average of net charge-offs for the most recent three years, which are then stated as a percentage of average loans for the same period. Historical risk factors are calculated for residential, commercial real estate, commercial business, and consumer loans. The three year weighted average historical factors are then adjusted for current subjective risks attributable to: regional and national economic factors; loan growth and changes in loan composition; organizational structure; composition of loan staff; loan concentrations; policy changes and out of market lending activity.

The risk factors are applied to these types of loans to determine the appropriate level for the ACL. Adjustments may be made to these allocations that reflect management’s judgment on current conditions, delinquency trends, and charge-off activity. Based on the above discussion, management believes that the ACL is currently adequate, but not excessive, given the risk inherent in the loan portfolio.

Impact of Inflation and Changing Prices

The financial statements and related data presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation. The primary assets and liabilities of the Bancorp are monetary in nature. As a result, interest rates have a more significant impact on the Bancorp’s performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or magnitude as the prices of goods and services.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 8. Financial Statements

Report of Independent Registered Public Accounting Firm

To the Stockholders, Board of Directors, and Audit Committe
Finward Bancorp
Munster, Indiana

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Finward Bancorp (the "Company") as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for credit losses effective January 1, 2023, due to the adoption of Accounting Standards Topic 326: Financial Instruments – Credit Losses. The adoption of the new credit loss standard and its subsequent application is also communicated as a critical audit matter.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits.

We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Credit Losses

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for credit losses effective January 1, 2023, due to the adoption of Accounting Standards Codification Topic 326: *Financial Instruments – Credit Losses.* The Company's loan portfolio totaled $1.5 billion as of December 31, 2023, and the associated allowance for credit losses ("ACL") on loans was $18.8 million. As discussed in Notes 1 and 4 to the consolidated financial statements, the Company measures expected credit losses for loans on a pooled basis when similar risk characteristics exist using relevant available information, from internal and external sources, relating to past events, current conditions, reasonable and supportable forecasts. Historical peer and Company credit loss experience provides the basis for the estimation of expected credit losses. Management also considers further adjustments to historical loss information for current conditions and reasonable and supportable forecasts that differ from the conditions that exist for the period over which historical information is evaluated as well as other changes in qualitative factors not inherently considered in the quantitative analyses. The resulting qualitative adjustments are applied to the relevant collectively evaluated loan pools.

We have identified the ACL, and more specifically the qualitative adjustments applied in the ACL, as a critical audit matter. The principal consideration for our determination is the high degree of judgment and subjectivity in auditing the assumptions utilized by management in calculating the qualitative reserve component. This required a high degree of judgement due to the nature and extent of audit evidence and effort required to address this matter.

The primary procedures we performed related to this critical audit matter included:

- Obtained an understanding of the Company's process for establishing the ACL, including the selection and application of qualitative factors and related adjustments to establish the qualitative component of the ACL.
- Evaluated the relevancy and reliability of the underlying data used to derive the qualitative factors, including comparison to internal, external and/or peer data.
- Assessed the appropriateness and reasonableness of the qualitative factor adjustments, including evaluating management's judgments as to which factors and relevant assessed risks impacted the qualitative adjustments for each loan pool.
- Tested the accuracy of the mathematical application of the qualitative factors to adjust the historical loss experience.

/s/ FORVIS, LLP

We have served as the Company's auditor since 2021.

Indianapolis, Indiana
March 28, 2024

Consolidated Balance Sheets

(Dollars in thousands)	December 31, 2023	December 31, 2022
ASSETS		
Cash and non-interest bearing deposits in other financial institutions	$ 17,942	$ 19,965
Interest bearing deposits in other financial institutions	67,647	11,210
Federal funds sold	419	107
Total cash and cash equivalents	86,008	31,282
Certificates of deposit in other financial institutions	-	2,456
Securities available-for-sale	371,374	370,896
Loans held-for-sale	340	1,543
Loans receivable, net of deferred fees and costs	1,512,595	1,513,631
Less: Allowance for credit losses	(18,768)	(12,897)
Net loans receivable	1,493,827	1,500,734
Federal Home Loan Bank stock	6,547	6,547
Accrued interest receivable	8,045	7,421
Premises and equipment	38,436	40,212
Foreclosed real estate	71	-
Cash value of bank owned life insurance	32,702	31,936
Goodwill	22,395	22,395
Other intangible assets	3,272	4,794
Other assets	45,262	50,123
Total assets	$ 2,108,279	$ 2,070,339
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 295,594	$ 359,092
Interest bearing	1,517,827	1,415,925
Total	1,813,421	1,775,017
Repurchase agreements	38,124	15,503
Borrowed funds	80,000	120,000
Accrued expenses and other liabilities	29,389	23,426
Total liabilities	1,960,934	1,933,946
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: December 31, 2023 - 4,298,773 December 31, 2022 - 4,298,401	-	-
Additional paid-in capital	69,555	69,032
Accumulated other comprehensive loss	(51,613)	(64,300)
Retained earnings	129,403	131,661
Total stockholders' equity	147,345	136,393
Total liabilities and stockholders' equity	$ 2,108,279	$ 2,070,339

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

(Dollars in thousands, except per share data)	Year Ended December 31, 2023	Year Ended December 31, 2022
Interest income:		
Loans receivable	$ 74,762	$ 62,133
Securities	9,118	9,576
Other interest earning assets	1,903	326
Total interest income	85,783	72,035
Interest expense:		
Deposits	25,438	3,604
Repurchase agreements	1,294	195
Borrowed funds	4,496	1,087
Total interest expense	31,228	4,886
Net interest income	54,555	67,149
Provision for credit losses	2,025	-
Net interest income after provision for credit losses	52,530	67,149
Noninterest income:		
Fees and service charges	6,024	6,257
Wealth management operations	2,484	2,113
Gain on sale of loans held-for-sale, net	1,081	1,368
Gain (loss) on sale of securities, net	(48)	662
Increase in cash value of bank owned life insurance	766	810
Gain (loss) on sale of foreclosed real estate	(13)	16
Other	452	283
Total noninterest income	10,746	11,509
Noninterest expense:		
Compensation and benefits	27,655	28,990
Occupancy and equipment	6,557	6,785
Data processing	4,734	6,750
Marketing	840	1,907
Impairment charge on assets held for sale	-	1,232
Federal deposit insurance premiums	2,003	1,228
Professional services	1,603	1,211
Net (gain) recognized on sale of premises and equipment	(276)	303
Other	12,115	13,694
Total noninterest expense	55,231	62,100
Income before income tax expenses	8,045	16,558
Income tax expenses (benefits)	(335)	1,478
Net income	$ 8,380	$ 15,080
Earnings per common share:		
Basic	$ 1.96	$ 3.61
Diluted	$ 1.96	$ 3.60
Dividends declared per common share	$ 1.05	$ 1.24

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss)

(Dollars in thousands)	Year Ended December 31, 2023	2022
Net income	$ 8,380	$ 15,080
Net change in net unrealized gains and losses on securities available-for-sale:		
Unrealized gain (loss) arising during the period	16,630	(89,323)
Less: reclassification adjustment for losses (gains) included in net income	48	(662)
Net securities gain (loss) during the period	16,678	(89,985)
Tax effect	(3,991)	21,409
Other comprehensive income (loss), net of tax	12,687	(68,576)
Comprehensive income (loss), net of tax	$ 21,067	$ (53,496)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

(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, 2022	$ -	$ 30,430	$ 4,276	$ 121,909	$ 156,615
Net income	-	-	-	15,080	15,080
Other comprehensive loss, net of tax	-	-	(68,576)	-	(68,576)
Net surrender value of 3,115 restricted stock awards	-	(120)	-	-	(120)
Stock-based compensation expense	-	741	-	-	741
Issuance of 795,423 shares at $47.75 per share, for acquisition of Royal Financial, Inc.	-	37,981	-	-	37,981
Cash dividends, $1.24 per share	-	-	-	(5,328)	(5,328)
Balance at December 31, 2022	$ -	$ 69,032	$ (64,300)	$ 131,661	$ 136,393
Balance at January 1, 2023	$ -	$ 69,032	$ (64,300)	$ 131,661	$ 136,393
Cumulative effect of change in accounting principle (ASU 2016-13)	-	-	-	(6,118)	(6,118)
Net income	-	-	-	8,380	8,380
Other comprehensive income, net of tax	-	-	12,687	-	12,687
Net surrender value of 5,684 restricted stock awards	-	(196)	-	-	(196)
Stock-based compensation expense	-	719	-	-	719
Cash dividends, $1.05 per share	-	-	-	(4,520)	(4,520)
Balance at December 31, 2023	$ -	$ 69,555	$ (51,613)	$ 129,403	$ 147,345

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Dollars in thousands)

	Year Ended December 31, 2023	Year Ended December 31, 2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 8,380	$ 15,080
Adjustments to reconcile net income to net cash provided by operating activities:		
Origination of loans for sale	(37,939)	(44,856)
Sale of loans originated for sale	40,217	49,628
Depreciation and amortization, net of accretion	7,163	5,968
Deferred tax expense (benefit)	(673)	1,187
Stock based compensation expense	719	741
Loss (gain) on sale of securities, net	48	(662)
Gain on sale of loans held-for-sale, net	(1,084)	(1,470)
Loss (gain) on sale of premises and equipment, net	(276)	303
Impairment charge on assets held for sale	-	1,232
Loss (gain) on sale of foreclosed real estate	13	(16)
Gain on cash value of bank owned life insurance	(766)	(810)
Loss on derivatives	3	102
Provision for credit losses	2,025	-
Net change in:		
Interest receivable	2,105	(141)
Other assets	3,002	(5,080)
Accrued expenses and other liabilities	1,274	(3,476)
Total adjustments	15,831	2,650
Net cash provided by operating activities	24,211	17,730
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of certificates of deposit in other financial institutions	2,456	232
Purchase of certificates of deposit in other financial institutions	-	(734)
Proceeds from maturities and pay downs of securities available-for-sale	14,332	41,524
Proceeds from sales of securities available-for-sale	476	53,953
Purchase of securities available-for-sale	(123)	(30,421)
Proceeds from bank owned life insurance	-	314
Net change in loans receivable	(6,378)	(93,998)
Proceeds from loans held for sale previously classified as loans receivable	4,530	-
Purchase of Federal Home Loan Bank Stock	-	(1,997)
Purchase of loans receivable	-	(2,663)
Purchase of premises and equipment, net	(1,148)	(3,031)
Proceeds from sale of premises and equipment	799	1,798
Proceeds from sale of foreclosed real estate	77	93
Cash and cash equivalents from acquisition activity, net	-	33,799
Net cash provided by (used in) investing activities	15,021	(1,131)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in deposits	38,404	(134,220)
Proceeds from borrowed funds	80,000	120,000
Repayment of borrowed funds	(120,000)	-
Net surrender value of restricted stock awards	(196)	(120)
Change in repurchase agreements	22,621	922
Dividends paid	(5,335)	(5,075)
Net cash provided by (used in) financing activities	15,494	(18,493)
Net change in cash and cash equivalents	54,726	(1,894)
Cash and cash equivalents at beginning of year	31,282	33,176
Cash and cash equivalents at end of year	$ 86,008	$ 31,282
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	$ 28,528	$ 4,572
Income taxes	241	1,347
Acquisition activity:		
Fair value of assets acquired, including cash and cash equivalents	$ -	$ 528,539
Value of goodwill and other intangible assets	-	14,506
Fair value of liabilities assumed	-	486,339
Cash paid for acquisition	-	18,725
Issuance of common stock for acquisition	-	37,981
Noncash activities:		
Transfer of loans receivable to loans held for sale	$ 4,530	$ -
Transfers from loans to foreclosed real estate	135	$ -
Dividends declared not paid	517	1,332
Transfer of premises and equipment to other real estate	-	1,815
Initial recognition of ASU 2016-13	9,295	-

See accompanying notes to consolidated financial statements.

NOTE 1 - ***Summary of Significant Accounting Policies***

Principles of Consolidation – The consolidated financial statements include Finward Bancorp (the “Bancorp” or “Finward”) and Peoples Bank (the “Bank”), and the Bank’s wholly owned subsidiaries, Peoples Service Corporation, NWIN, LLC, NWIN Funding, Incorporated, and Columbia Development Company, LLC. The Bancorp’s business activities include being a holding company for the Bank. The Bancorp’s earnings are dependent upon the earnings of the Bank. Peoples Service Corporation provides insurance and annuity investments to the Bank’s wealth management customers. NWIN, LLC is located in Las Vegas, Nevada and serves as the Bank’s investment subsidiary and parent of a real estate investment trust, NWIN Funding, Inc. NWIN Funding, Inc. was formed as an Indiana Real Estate Investment Trust. The formation of NWIN Funding, Inc. provides the Bancorp with a vehicle that may be used to raise capital utilizing portfolio mortgages as collateral, without diluting stock ownership. In addition, NWIN Funding, Inc. receives favorable state tax treatment for income generated by its operations. Columbia Development Company is a limited liability company that serves to hold certain real estate properties that are acquired through foreclosure. On May 18, 2016, NWIN Risk Management, Inc., a captive insurance company incorporated in Nevada, was formed as a wholly owned subsidiary of the Holding Company. NWIN Risk Management, Inc. was dissolved as a corporate entity on August 9, 2023. All assets of the subsidiary were distributed to the Holding Company upon decommissioning. All intercompany transactions and balances are eliminated in consolidation.

Use of Estimates – Preparing financial statements in conformity with accounting principles generally accepted in the United States of America 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 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 credit losses are particularly susceptible to material change in the near term.

Concentrations of Credit Risk – The Bancorp grants residential, commercial real estate, commercial business and installment loans to customers primarily in Lake County, in northwest Indiana, and Cook County, in northeast Illinois. 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.

Cash Flow Reporting – For purposes of the statements of cash flows, the Bancorp considers cash on hand, noninterest bearing deposits in other financial institutions, all interest bearing deposits in other financial institutions with original maturities of 90 days or less, and federal funds sold to be cash and cash equivalents. The Bancorp reports net cash flows for customer loan and deposit transactions and short-term borrowings with maturities of 90 days or less.

Certificates of deposits in other financial institutions – Certificates of deposits in other financial institutions generally mature within 5 years and are carried at cost.

Securities – The Bancorp classifies securities into held-to-maturity, available-for-sale, or trading categories. Held-to-maturity securities are those which management has the positive intent and the Bancorp has the ability to hold to maturity, and are reported at amortized cost. Available-for-sale securities are those the Bancorp may decide to sell if needed for liquidity, asset-liability management or other reasons. Available-for-sale securities are reported at fair value, with unrealized gains and losses reported in other comprehensive (loss) income, net of tax. At December 31, 2023, and 2022, all of the Bancorp’s securities were classified as available-for-sale. The Bancorp does not have a held to maturity or trading portfolio. Realized gains and losses resulting from the sale of securities recorded on the trade date are computed by the specific identification method. Interest and dividend income, adjusted by amortization of premiums or discounts on a level yield method, are included in earnings.

Prior to the adoption of ASU 2016-13, declines in the fair value of securities below their cost deemed to be other-than-temporary impairment (“OTTI”) were reflected in operations as realized losses. Upon adoption of ASU 2016-13, for securities in a loss position, the Company evaluates whether the decline in fair value below amortized cost resulted from a credit loss or other factors, and if the loss is attributable to credit loss, the loss is recognized through an allowance for credit losses on securities. In assessing credit loss, the Company considers, among other things: the extent to which fair value is less than the amortized cost basis, adverse conditions specific to the security or industry, historical payment patterns, the likelihood of future payments and changes to the rating of a security by a rating agency.

The full amount of the loss will be charged to earnings if the Company intends to sell an impaired security or it is more likely than not that the Company would be required to sell an impaired security before recovering its amortized cost basis. Changes in the allowance for credit losses would be recorded as a provision for credit losses. Losses would be charged against the allowance when management believes the security is uncollectible or management intends to sell or is required to sell the security. See Note 3—Securities for additional information.

Loans Held-for-Sale – Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held-for-sale can be sold with servicing rights retained or released. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing rights. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans and Loan Interest Income – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, and net deferred loan fees and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.
The accrual of interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Consumer loans are typically charged-off no later than when they reach 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on non-accrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful.

Generally, interest accrued but not received for loans placed on non-accrual status is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for credit losses – The allowance for credit losses is a valuation account that is deducted from the loans’ amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes uncollectibility of the loan is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off. Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The allowance for credit losses is measured on a collective (segment) basis when similar risk characteristics exist. Segments generally reflect underlying collateral categories as well taking into consideration the risk ratings and unguaranteed balance of small business loans. Management considers various economic scenarios in its forecast when evaluating economic indicators and weights the various scenarios to arrive at the forecast that most reflects management’s expectation of future conditions. After a two-year forecast period, a two-year reversion period adjusts loss experience to the historical average on a straight-line basis.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral, adjusted for undiscounted selling costs as appropriate. When the discounted cash flow method is used to determine the allowance for credit losses, management does not adjust the effective interest rate used to discount expected cash flows to incorporate expected prepayments.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a troubled debt restructuring will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Bancorp.

Additionally, the allowance for credit losses calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase or reduce reserve levels and include adjustments for lending management experience and risk tolerance, loan review and audit results, asset quality and portfolio trends, loan portfolio growth, industry concentrations, trends in underlying collateral, external factors and economic conditions not already captured.

The Company also maintains an allowance for credit losses on off-balance sheet credit exposures for unfunded loan commitments. This allowance is reflected as a component of other liabilities which represents management's current estimate of expected losses in the unfunded loan commitments. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life based on management's consideration of past events, current conditions and reasonable and supportable economic forecasts. Management tracks the level and trends in unused commitments and takes into consideration the same factors as those considered for purposes of the allowance for credit losses on outstanding loans.

Results for the full year and period end December 31, 2023, are presented under the current expected credit losses ("CECL") methodology while prior period amounts continue to be reported in accordance with the Allowance for loan and lease losses ("ALLL") methodology.

A description of each segment of the loan portfolio, including the corresponding credit risk, is included below:

Residential real estate – We offer fixed and adjustable rate residential real estate loans with terms of up to 30 years. We also offer a variety of lot loan options to consumers to purchase the lot on which they intend to build their home. We also offer traditional home equity loans and lines of credit. Our underwriting criteria for, and the risk associated with, home equity loans and lines of credit are generally the same as those for first mortgage loans.

Home Equity - Home equity loans typically have terms of 20 years or less. We generally limit the extension of credit to 90% of the available equity of each property. These loans carry risk associated with local employment and declining real estate values.

Commercial real estate - Commercial real estate loans are extensions of credit secured by owner occupied and non-owner occupied collateral. Commercial real estate loans generally have terms of 10 years or less, although payments may be structured on a longer amortization basis. We attempt to reduce credit risk in the commercial real estate portfolio by emphasizing loans on owner-occupied industrial, office, and retail buildings where the loan-to-value ratio, established by independent appraisals, does not generally exceed 80% of cost of appraised value. We also generally require that a borrower's cash flow exceed 120% of monthly debt service obligations. Commercial real estate loans are generally viewed as having more risk of default than residential real estate loans. They are also typically larger than residential real estate loans and consumer loans and depend on cash flows from the owner's business or the property to service the debt. Underwriting generally involves intensive analysis of the financial strength of the borrower and guarantor, liquidation value of the subject collateral, and any available secondary sources of repayment, with the greatest emphasis given to a borrower's capacity to meet cash flow coverage requirements as set forth by Bank policies. Such repayment of owner occupied loans is commonly derived from the successful ongoing operations of the business occupying the property. These typically include small businesses and professional practices. Commercial real estate loans may also include government guaranteed loans secured by collateral in the form of residential real estate. Repayment of such loans generally comes from the generation of cash flow as the result of the borrower's business operations

Construction and land development – Construction and land development loans are generally limited to a term of 9 to 24 months, although payments may be structured on a longer amortization basis. Most loans will mature and require payment in full upon completion and either the sale of the property or refinance into a permanent loan. We believe that construction and land development loans generally carry a higher degree of risk than long-term financing of stabilized, rented, and owner-occupied properties because repayment depends on the ultimate completion of the project and usually on the subsequent sale of the property. We attempt to reduce risk associated with construction and land development loans by obtaining personal guaranties and by keeping the maximum loan to value ratio at or below 80% of the lesser of cost or appraised value, depending on the project type. Generally we do not have interest reserves built into loan commitments but require periodic cash payments for interest from the borrower's cash flow.

Multifamily - Multifamily loans are a subset of commercial real estate loans and generally carry similar terms and underwriting requirements. These loans are broken out as a separate segment due to unique risk characteristics that they exhibit. While similar in nature to other non-owner occupied commercial real estate, they are significantly impacted by the individual credit capacity of many more individual tenants than other commercial real estate as well as the condition and capacity of the local residential housing markets. The underlying real estate also has a lack of suitable alternative uses.

Commercial business - Commercial business loans are typically made to small and middle-market established businesses involved in professional services, accommodation and food services, health care, financial services, wholesale trade, manufacturing, distribution, retailing, and non-profits. Most clients are privately owned with markets that range from local to national in scope. Many of the loans to this segment are secured by liens on corporate assets and personal guarantees of the principals. The regional economic strength or weakness impacts the relative risk in this loan category. There is little concentration in any one business sector, and loan risks are generally diversified among many borrowers. Risks associated with commercial and industrial loans include monitoring the condition of the collateral which often consists of inventory, accounts receivable, and other non-real estate assets. Declines in general economic conditions and other events can cause cash flows to fall to levels insufficient to service this debt.

Consumer – Consumer loans are underwritten based on the borrower's income, current debt level, past credit history, and the availability and value of collateral. Consumer rates are both fixed and variable, with negotiable terms. Our installment loans typically amortize over periods up to seven years. Although we typically require monthly principal and interest payments on our loan products, we will offer consumer loans at interest only with a single maturity date when a specific source of repayment is available. Consumer loans are generally considered to have greater risk than our first and second mortgages on real estate because they may be unsecured, or, or if they are secured, the value of the collateral may be difficult to assess and more likely to decrease in value than real estate.

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

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

Troubled Loan Modifications – A troubled loan modification is undertaken to improve the likelihood that the loan will be repaid in full under the modified terms in accordance with a reasonable repayment schedule. All modified loans are evaluated to determine whether the loan should be reported as a troubled loan modification (TLM). A loan is a TLM when the Bancorp, for economic or legal reasons related to the borrower's financial difficulties, grants a type of loan modification to the borrower by modifying or renewing a loan under terms that the Bancorp would not otherwise consider. To make this determination, the Bancorp must determine whether (a) the borrower is experiencing financial difficulties and (b) the Bancorp granted the borrower a modification for principal forgiveness, interest rate reduction, other-than-insignificant payment delay or other-than-insignificant term extension. This determination requires consideration of all of the facts and circumstances surrounding the modification. An overall general decline in the economy or some level of deterioration in a borrower's financial condition does not inherently mean the borrower is experiencing financial difficulties.

Some of the factors considered by management when determining whether a borrower is experiencing financial difficulties are: (1) is the borrower currently in default on any of its debts, (2) has the borrower declared or is the borrower in the process of declaring bankruptcy, and (3) is there doubt as to whether the borrower will continue to be a going concern based on factors including but not limited to projections of insufficient cash flows to service debt in accordance with contractual terms and anticipated inability to obtain funding from other sources at a market rate.

Federal Home Loan Bank Stock – The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Transfers of Financial Assets – Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bancorp, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of the right) to pledge or exchange the transferred assets, and (3) the Bancorp does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Premises and Equipment – Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Premises and related components are depreciated using the straight-line method with useful lives ranging from 15 to 39 years. Furniture and equipment are depreciated using the straight-line method with useful lives ranging from 2 to 10 years.

Foreclosed Real Estate – Assets acquired through or instead of loan foreclosure are initially recorded at fair value less estimated costs to sell when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Long-term Assets – Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Bank Owned Life Insurance – The Bancorp has purchased life insurance policies on certain key executives. In accordance with accounting for split-dollar life insurance, Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Goodwill and Intangibles – The Bancorp records the assets acquired, including identified intangible assets, and the liabilities assumed in acquisitions at their fair values. These fair values often involve estimates based on third-party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques that may include estimates of attrition, inflation, asset growth rates or other relevant factors. In addition, the determination of the useful lives over which an intangible asset will be amortized is subjective. Under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 350, goodwill and indefinite-lived assets recorded are reviewed for impairment on an annual basis, as well as on an interim basis if events or changes indicate that the asset might be impaired. An impairment loss is recognized for any excess of carrying value over fair value of the goodwill or the indefinite-lived intangible asset.

Repurchase Agreements – Substantially all repurchase agreement liabilities represent amounts advanced by various customers that are not covered by federal deposit insurance and are secured by securities owned by the Bancorp.

Income Taxes – Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

At December 31, 2023 and 2022, the Bancorp evaluated tax positions taken for filing with the Internal Revenue Service and all state jurisdictions in which it operates. The Bancorp believes that income tax filing positions will be sustained under examination and does not anticipate any adjustments that would result in a material adverse effect on the Bancorp's financial condition, results of operations, or cash flows. Accordingly, the Bancorp has not recorded any reserves or related accruals for interest and penalties for uncertain tax positions at December 31, 2023 and 2022.

Loan Commitments and Related Financial Instruments – Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

As part of mortgage banking operations, the Company enters into commitments to originate loans whereby the interest rate on these loans is determined prior to funding (“interest rate lock commitments”). Similar to loans held for sale, the fair value of rate lock commitments is subject to change primarily due to changes in interest rates. The interest rate lock commitments on mortgage loans intended to be sold are recorded at fair value with changes in fair value recorded in current earnings as part of gain on sale of loans held-for-sale, net.

Earnings Per Common Share – Basic earnings per common share is net income divided by the weighted-average number of common shares outstanding during the period. The restricted shares issued provide for dividend and voting rights and are therefore considered participating securities. Accordingly, all restricted stock is included in basic earnings per share.

Comprehensive (Loss) Income – Comprehensive (loss) income consists of net income and other comprehensive (loss) income. Other comprehensive (loss) income includes unrealized gains and losses on securities available-for-sale.

Loss Contingencies – Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe such matters currently exist that will have a material effect on the financial statements.

Restrictions on Cash — As part of derivative contracts entered into by the Bancorp, cash balances of $ 4.1 million were pledged as collateral at December 31, 2023. At December 31, 2023, the Company's correspondent cash accounts exceeded federally insured limits by $ 18.7 million. Additionally, the Company had approximately $56.2 million of cash held by the FRB and the FHLB, which is not federally insured.

Fair Value of Financial Instruments – Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular instruments. Changes in assumptions or in market conditions could significantly affect the estimates.

Operating Segments – While the Bancorp's executive management monitors the revenue streams of the various products and services, the identifiable segments are not material and operations are managed and financial performance is evaluated on a company-wide basis. Accordingly, all of the Bancorp's financial service operations are considered by management to be aggregated in one reportable operating segment.

Reclassification – Certain amounts appearing in the consolidated financial statements and notes thereto as of and for the year ended December 31, 2022, may have been reclassified to conform to the December 31, 2023 presentation.

Trust Assets – Assets of the Bancorp's wealth management department, other than cash on deposit at the Bancorp, are not included in these consolidated financial statements because they are not assets of the Bancorp.

Dividends – Banking regulations require maintaining certain capital levels and these regulations, along with certain provisions of state law, may limit the dividends paid by the Bank to the Bancorp or by the Bancorp to shareholders. Pursuant to the MOU discussed in Note 12, the Bank must seek regulatory approval prior to paying cash dividends.

Adoption of New Accounting Pronouncements – In June 2016, FASB issued ASU 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments ("CECL"). 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 ("ACL") valuation account that is deducted from the amortized cost basis to present the net carrying value at the amount expected to be collected on the financial asset. The amendments in this ASU also eliminate the probable initial recognition threshold in current GAAP and instead, reflect an entity's current estimate of all expected credit losses using reasonable and supportable forecasts. The new credit loss guidance became effective for the Bancorp as of January 1, 2023. On January 1, 2023, the Bancorp adopted ASU No. 2016-13 using a modified retrospective transition method, resulting in an implementation entry of $9.3 million, increasing the ACL by $6.1 million and unfunded commitment liability of $ 3.1 million, retained earnings decreased $6.2 million and a deferred tax asset of $ 2.2 million was generated. The majority of the implementation entry is related to including acquired loan portfolios in the model and the addition of using economic forecasts in estimating future losses. In addition, $1.0 million of non-accretable credit loan discounts on purchase credit impaired loans now classified as purchase credit deteriorated were reallocated to the ACL.

Upon adopting ASU 2016-13, the Bancorp did not record an allowance as of January 1, 2023, with respect to its available-for-sale debt securities as the majority of these securities are municipal securities for which the risk of loss is minimal.

The main drivers of the day one adjustment related to implementation is summarized in the following table:

(Dollars in thousands) Allowance for credit losses	Pre-ASC 326 Adoption December 31, 2022	Impact of ASC 326 Adoption	As Reported Under ASC 326 January 1, 2023
Residential real estate	$ 3,021	$ 2,223	$ 5,244
Home equity	410	128	538
Commercial real estate	5,784	1,446	7,230
Construction and land development	1,253	1,735	2,988
Multifamily	1,007	141	1,148
Farmland	-	-	-
Commercial business	1,365	325	1,690
Consumer	57	22	79
Manufactured homes	-	112	112
Government	-	55	55
Total allowance for credit losses on loans	$ 12,897	$ 6,187	$ 19,084
Accrued expenses and other liabilities	-	3,108	3,108
Total allowance for credit losses	$ 12,897	$ 9,295	$ 22,192

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 was 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. The Bancorp adopted ASU 2022-02 on January 1, 2023 without material effect on the Bancorp's financial statements.

Upcoming Accounting Pronouncements - 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. In December of 2022, the FASB issued ASU No. 2022-06 which extended the period of time preparers can utilize the reference rate reform relief guidance in Topic 848. The guidance ensures the relief in Topic 848 covers the period of time during which a significant number of modifications may take place and the ASU defers the sunset date of Topic 848 from December 31, 2022 to December 31, 2024. The Bancorp continues to implement its transition plan after the cessation of LIBOR and the modification of its loans and other financial instruments with attributes that were either directly or indirectly influenced by LIBOR. The Bancorp expects to utilize the LIBOR transition relief allowed under ASU 2020-04, ASU 2021-01 and ASU 2022-06, as applicable, and does not expect such adoption to have a material 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.

In March 2023, the FASB issued Accounting Standards (ASU) No. 2023-02 “Investments Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method.” These amendments allow reporting entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. 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 in any interim period. ASU 2023-02 did not have a material impact on our consolidated financial statements.

In July 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-03, “Presentation of Financial Statements (Topic 205), Income Statement - Reporting Comprehensive Income (Topic 220), Distinguishing Liabilities from Equity (Topic 480), Equity (Topic 505), and Compensation - Stock Compensation (Topic 718): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 120, SEC Staff Announcement at the March 24, 2022 EITF Meeting, and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280 - General Revision of Regulation S-X: Income or Loss Applicable to Common Stock” (“ASU 2023-03”). This ASU amends various paragraphs in the accounting codification pursuant to the issuance of Commission Staff Bulletin ("SAB") number 120. ASU 2023-03 does not provide any new guidance, so there is no transition or effective date. ASU 2023-03 did not have a material impact on our condensed consolidated financial statements.

In October 2023, the FASB issued ASU 2023-06, Disclosure Improvements: Codification Amendment in Response to the SEC’s Disclosure Update and Simplification Initiative. The ASU incorporates several disclosure and presentation requirements currently residing in the SEC Regulations S-X and S-K. The amendments will be applied prospectively and are effective when the SEC removes the related requirements from Regulations S-X or S-K. Any amendments the SEC does not remove by June 30, 2027 will not be effective. As we are currently subject to these SEC requirements, this ASU is not expected to have a material impact on our consolidated financial statements or related disclosures.

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which requires all public entities to provide enhanced disclosures about significant segment expenses. The amendments in this ASU are to be applied retrospectively and are effective for our annual financial statements starting in fiscal 2024 and interim periods starting in fiscal 2025, with early adoption permitted. We are currently evaluating the impact of this accounting standard, but do not expect it to have a material impact on our consolidated financial statements.

Income Taxes. In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which enhances transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid and to improve the effectiveness of income tax disclosures. This accounting standards update will be effective for us for fiscal year 2025, with early adoption permitted. We are currently evaluating the impact of this accounting standard, but do not expect it to have a material impact on our consolidated financial statements.

NOTE 2 – ***Acquisition Activity***

On January 31, 2022, 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 (in thousands):

ASSETS		
Cash and due from banks	$	52,524
Investment securities, available for sale		-
Certificate of deposit in other financial institutions		245
Total Loans		450,757
Premises and equipment, net		13,896
FHLB stock		1,303
Goodwill		11,286
Core deposit intangible		3,220
Interest receivable		1,836
Other assets		7,978
Total assets purchased	$	543,045
Common shares issued		37,981
Cash paid		18,725
Total purchase price	$	56,706
LIABILITIES		
Deposits		
Non-interest bearing	$	32,095
NOW accounts		63,639
Savings and money market		184,149
Certificates of deposits		195,153
Total Deposits		475,036
Interest payable		75
Other liabilities		11,228
Total liabilities assumed	$	486,339

During the year-ended December 31, 2022, adjustments were made to the carrying value of other assets of $ 409 thousand, due to the valuation of prepaids and deferred tax assets brought over in the acquisition, and premises and equipment, net, of $48 thousand, due to a correction in the valuation of buildings, and 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 $378 thousand. Goodwill related to the RYFL transaction is not expected to be deductible for tax purposes.

Goodwill of approximately $ 11.5 million, which is the excess of the acquisition consideration over the fair value of net assets acquired, has been 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.

Gross loans acquired during the RYFL transaction totaled $ 456.7 million.

The following pro-forma and earnings (unaudited) of the combined company are presented as if the RYFL merger had occurred on January 1, 2023, and January 1, 2022:

(in thousands)	**For the twelve months ended December 31, 2023**	**For the twelve months ended December 31, 2022**
Selected Financial Data		
Interest income	$ 85,783	$ 73,730
Interest expense	(31,228)	(4,987)
Provision for loan losses	(2,025)	-
Non-interest income	10,746	11,648
Non-interest expense (1)	(55,231)	(60,228)
Income before provision for income taxes	8,045	20,163
Income tax expense	335	(2,235)
Net income	$ 8,380	$ 17,928
Earnings per common share:		
Basic	$ 1.96	$ 4.29
Diluted	$ 1.96	$ 4.28

(1) Excludes $2.9 million in pre-tax merger expenses for the twelve months ended December 31, 2022.

For the year ended December 31, 2022, the Bancorp 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)	Twelve months ended December 31, 2022
Noninterest expense:	
Compensation and benefits	$ 132
Data processing	1,929
Marketing	135
Other	656
Period merger expense	$ 2,852

NOTE 3 – ***Securities***

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

(Dollars in thousands)	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2023				
U.S. government sponsored entities	$ 8,884	$ -	$ (1,001)	$ 7,883
U.S. treasury securities	-	-	-	-
Collateralized mortgage obligations and residential mortgage-backed securities	149,410	-	(25,946)	123,464
Municipal securities	278,813	60	(40,203)	238,670
Collateralized debt obligations	2,170	-	(813)	1,357
Total securities available-for-sale	$ 439,277	$ 60	$ (67,963)	$ 371,374

(Dollars in thousands)	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2022				
U.S. government sponsored entities	$ 8,883	$ -	$ (1,258)	$ 7,625
U.S. treasury securities	389	-	-	389
Collateralized mortgage obligations and residential mortgage-backed securities	163,000	-	(28,884)	134,116
Municipal securities	281,032	7	(53,321)	227,718
Collateralized debt obligations	2,173	-	(1,125)	1,048
Total securities available-for-sale	$ 455,477	$ 7	$ (84,588)	$ 370,896

The cost basis, estimated fair value of available-for-sale securities, and carrying amount, if different, at December 31, 2023, by contractual maturity were as follows. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

(Dollars in thousands) Available-for-sale	Cost Basis	Estimated Fair Value
December 31, 2023		
Due in one year or less	$ 250	$ 249
Due from one to five years	10,433	9,325
Due from five to ten years	21,801	20,486
Due over ten years	257,383	217,850
Collateralized mortgage obligations and residential mortgage-backed securities	149,410	123,464
Total	$ 439,277	$ 371,374

Sales of available-for-sale securities were as follows:

	(Dollars in thousands) December 31, 2023	December 31, 2022
Proceeds	$ 476	$ 53,953
Gross gains	-	733
Gross losses	(48)	(71)

The tax benefits related to these net realized losses were approximately $ 11 thousand for 2023. The tax provisions related to these net realized gains were approximately $157 thousand for 2022.

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, 2022	$ (64,300)
Current period change	12,687
Ending balance, December 31, 2023	$ (51,613)

	(Dollars in thousands) Unrealized gain/(loss)
Ending balance, December 31, 2021	$ 4,276
Current period change	(68,576)
Ending balance, December 31, 2022	$ (64,300)

Securities with carrying values of approximately $ 324.1 million and $ 223.7 million were pledged as of December 31, 2023 and 2022, respectively, as collateral for repurchase agreements, public funds, and for other purposes as permitted or required by law.

Securities with unrealized losses at December 31, 2023, and 2022, not recognized in income are as follows:

	(Dollars in thousands) Less than 12 months		12 months or longer		Total		
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Percentage of Total Portfolio in Loss Position
December 31, 2023							
U.S. government sponsored entities	$ -	$ -	$ 7,883	$ (1,001)	$ 7,883	$ (1,001)	100.0%
Collateralized mortgage obligations and residential mortgage-backed securities	-	-	123,464	(25,946)	123,464	(25,946)	100.0%
Municipal securities	-	-	229,595	(40,203)	229,595	(40,203)	96.2%
Collateralized debt obligations	-	-	1,357	(813)	1,357	(813)	100.0%
Total temporarily impaired	$ -	$ -	$ 362,299	$ (67,963)	$ 362,299	$ (67,963)	97.6%
Number of securities		-		434		434	

December 31, 2022	Less than 12 months Estimated Fair Value	Less than 12 months Unrealized Losses	12 months or longer Estimated Fair Value	12 months or longer Unrealized Losses	Total Estimated Fair Value	Total Unrealized Losses	Percentage of Total Portfolio in Loss Position
	(Dollars in thousands)						
U.S. government sponsored entities	$ -	$ -	$ 7,625	$ (1,258)	$ 7,625	$ (1,258)	100.0%
Collateralized mortgage obligations and residential mortgage-backed securities	32,700	(4,955)	101,416	(23,929)	134,116	(28,884)	100.0%
Municipal securities	171,581	(35,935)	52,961	(17,386)	224,542	(53,321)	98.6%
Collateralized debt obligations	-	-	1,048	(1,125)	1,048	(1,125)	100.0%
Total temporarily impaired	$ 204,281	$ (40,890)	$ 163,050	$ (43,698)	$ 367,331	$ (84,588)	99.0%
Number of securities		311		135		446	

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.

AFS securities are not within the scope of the CECL methodology; however, the accounting for credit losses on these securities is affected by ASC 326-30. ASC 326 allows for prospective adoption of previously recorded other-than-temporary impairment (OTTI) on AFS securities. At adoption, the Bank had $173 thousand of previously recorded credit impairment on trust preferred AFS securities. The Bank believes this continues to represent the expected credit losses of the amortized cost basis, therefore, no additional ACL has been established for AFS debt securities at January 1, 2023. The need for an ACL is monitored quarterly and is measured by evaluating the present value of cash flows as compared to the amortized cost basis of the security. After adoption, if there is a decrease in future expected cash flows due to a deterioration in credit, an ACL will be recorded. If there is an improvement in credit, any previously recorded ACL will be reduced. Improvement in credit beyond any ACL that has been established will be recorded in the income statement in the period in which the cash recovery is received. At December 31, 2023 collateralized debt obligations with a cost basis of $ 2.2 million and fair value of $ 1.4 million had previously recorded impairment of $173 thousand, which will not be recoverable until maturity of the security.

NOTE 4 – ***Loans Receivable***

Year end loans are summarized below:

(Dollars in thousands)

	December 31, 2023	December 31, 2022
Loans secured by real estate:		
Residential real estate	$ 484,948	$ 484,595
Home equity	46,599	38,978
Commercial real estate	503,202	486,431
Construction and land development	115,227	108,926
Multifamily	219,917	251,014
Total loans secured by real estate	1,369,893	1,369,944
Commercial business	97,386	93,278
Consumer	610	918
Manufactured homes	30,845	34,882
Government	10,021	9,549
Loans receivable	1,508,755	1,508,571
Add (less):		
Net deferred loan origination costs	3,705	5,083
Undisbursed loan funds	135	(23)
Loans receivable, net of deferred fees and costs	$ 1,512,595	$ 1,513,631

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 and Accruing	Total Past Due and Accruing	Current	Accruing Loans	Non-accrual Loans	Total Loans Receivable
December 31, 2023								
Residential real estate	$ 5,857	$ 4,362	$ 1,131	$ 11,350	$ 471,905	$ 483,255	$ 1,693	$ 484,948
Home equity	226	18	-	244	45,887	46,131	468	46,599
Commercial real estate	3,168	262	712	4,142	498,227	502,369	833	503,202
Construction and land development.	2,523	-	-	2,523	112,704	115,227	-	115,227
Multifamily	5,333	-	-	5,333	210,869	216,202	3,715	219,917
Commercial business	105	29	-	134	94,355	94,489	2,897	97,386
Consumer	12	-	-	12	596	608	2	610
Manufactured homes	634	379	-	1,013	29,832	30,845	-	30,845
Government	-	-	-	-	10,021	10,021	-	10,021
Total	$ 17,858	$ 5,050	$ 1,843	$ 24,751	$ 1,474,396	$ 1,499,147	$ 9,608	$ 1,508,755
December 31, 2022								
Residential real estate	$ 3,758	$ 2,520	$ 166	$ 6,444	$ 472,804	$ 479,248	$ 5,347	$ 484,595
Home equity	315	42	-	357	38,027	38,384	594	38,978
Commercial real estate	1,399	150	-	1,549	481,640	483,189	3,242	486,431
Construction and land development	2,673	-	-	2,673	106,253	108,926	-	108,926
Multifamily	1,724	616	-	2,340	241,610	243,950	7,064	251,014
Commercial business	1,775	-	-	1,775	89,622	91,397	1,881	93,278
Consumer	3	-	-	3	915	918	-	918
Manufactured homes	601	256	82	939	33,943	34,882	-	34,882
Government	-	-	-	-	9,549	9,549	-	9,549
Total	$ 12,248	$ 3,584	$ 248	$ 16,080	$ 1,474,363	$ 1,490,443	$ 18,128	$ 1,508,571

The following table shows the amortized cost of loans, segregated by portfolio segment, credit quality rating and year of origination as of December 31, 2023, and gross charge-offs for the year ended December 31, 2023.

December 31, 2023	**2023**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Revolving**	**Revolving Converted to Term**	**Total**
Total Loans Receivable	$ 148,105	$ 323,820	$ 321,183	$ 234,861	$ 108,683	$ 274,027	$ 94,893	$ 3,183	$ 1,508,755
Total current period gross charge-off	$ (95)	$ (150)	$ -	$ (367)	$ (50)	$ (1,882)	$ (27)	$ -	(2,571)
Residential real estate									
Pass (1-6)	$ 20,740	$ 97,671	$ 106,778	$ 115,001	$ 23,873	$ 113,987	$ 1,716	$ -	$ 479,766
Special Mention (7)	405	-	473	173	431	1,602	-	-	3,084
Substandard (8)	-	786	152	471	217	472	-	-	2,098
Total	$ 21,145	$ 98,457	$ 107,403	$ 115,645	$ 24,521	$ 116,061	$ 1,716	$ -	$ 484,948
Current period gross charge-off	-	(40)	-	(25)	(39)	(893)	-	-	(997)
Home equity									
Pass (1-6)	$ 110	$ 114	$ 101	$ 14	$ 61	$ 2,051	$ 42,801	$ 700	$ 45,952
Special Mention (7)	-	-	-	-	4	31	70	63	168
Substandard (8)	-	161	-	-	-	67	251	-	479
Total	$ 110	$ 275	$ 101	$ 14	$ 65	$ 2,149	$ 43,122	$ 763	$ 46,599
Current period gross charge-off	-	-	-	-	-	(16)	(27)	-	(43)
Commercial real estate									
Pass (1-6)	$ 52,880	$ 127,607	$ 90,108	$ 55,236	$ 56,255	$ 108,489	$ 2,649	$ -	$ 493,224
Special Mention (7)	-	69	2,429	1,274	1,123	2,397	142	-	7,434
Substandard (8)	-	-	-	230	-	2,314	-	-	2,544
Total	$ 52,880	$ 127,676	$ 92,537	$ 56,740	$ 57,378	$ 113,200	$ 2,791	$ -	$ 503,202
Current period gross charge-off	-	-	-	-	-	(372)	-	-	(372)
Construction and land development									
Pass (1-6)	$ 48,518	$ 24,948	$ 13,411	$ 1,732	$ 4,284	$ 473	$ 12,539	$ 2,420	$ 108,325
Special Mention (7)	365	76	4,205	2,256	-	-	-	-	6,902
Total	$ 48,883	$ 25,024	$ 17,616	$ 3,988	$ 4,284	$ 473	$ 12,539	$ 2,420	$ 115,227
Current period gross charge-off	-	-	-	-	-	-	-	-	-
Multifamily									
Pass (1-6)	$ 9,333	$ 53,493	$ 78,122	$ 41,773	$ 13,156	$ 19,609	$ 186	$ -	$ 215,672
Substandard (8)	-	-	1,666	1,562	-	1,017	-	-	4,245
Total	$ 9,333	$ 53,493	$ 79,788	$ 43,335	$ 13,156	$ 20,626	$ 186	$ -	$ 219,917
Current period gross charge-off	-	-	-	-	-	-	-	-	-
Commercial business									
Pass (1-6)	$ 13,110	$ 13,774	$ 9,327	$ 5,705	$ 4,105	$ 12,905	$ 33,954	$ -	$ 92,880
Special Mention (7)	373	197	58	-	129	436	417	-	1,610
Substandard (8)	43	1,094	256	214	-	1,121	168	-	2,896
Total	$ 13,526	$ 15,065	$ 9,641	$ 5,919	$ 4,234	$ 14,462	$ 34,539	$ -	$ 97,386
Current period gross charge-off	-	(110)	-	(342)	(11)	(601)	-	-	(1,064)
Consumer									
Pass (1-6)	$ 338	$ 73	$ 108	$ 4	$ 14	$ 71	$ -	$ -	$ 608
Substandard (8)	-	-	-	2	-	-	-	-	2
Total	$ 338	$ 73	$ 108	$ 6	$ 14	$ 71	$ -	$ -	$ 610
Current period gross charge-off	(95)	-	-	-	-	-	-	-	(95)
Manufactured homes									
Pass (1-6)	$ -	$ 1,942	$ 12,556	$ 9,214	$ 5,031	$ 2,102	$ -	$ -	$ 30,845
Total	$ -	$ 1,942	$ 12,556	$ 9,214	$ 5,031	$ 2,102	$ -	$ -	$ 30,845
Current period gross charge-off	-	-	-	-	-	-	-	-	-
Government									
Pass (1-6)	$ 1,890	$ 1,815	$ 1,433	$ -	$ -	$ 4,883	$ -	$ -	$ 10,021
Total	$ 1,890	$ 1,815	$ 1,433	$ -	$ -	$ 4,883	$ -	$ -	$ 10,021
Current period gross charge-off	-	-	-	-	-	-	-	-	-

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

(Dollars in thousands)	December 31, 2022			
	1-6	7	8	
Loan Segment	Pass	Special mention	Substandard	Total
Residential real estate	$ 477,222	$ 1,338	$ 6,035	$ 484,595
Home equity	37,981	385	612	38,978
Commercial real estate	474,055	4,955	7,421	486,431
Construction and land development	106,580	2,346	-	108,926
Multifamily	242,091	1,859	7,064	251,014
Commercial business	90,694	703	1,881	93,278
Consumer	918	-	-	918
Manufactured homes	34,882	-	-	34,882
Government	9,549	-	-	9,549
Total	$ 1,473,972	$ 11,586	$ 23,013	$ 1,508,571

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. Thehe Bancorp reassesses its risk ratings annually, and no changes to our credit quality indicators have occurred. 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 Bank's credit position at some future date. Special mention assets are not adversely classified and do not expose the Bank 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.

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.

Loan Modification Disclosures Pursuant to ASU 2022-02

The following table shows the amortized cost of loans at December 31, 2023, that were both experiencing financial difficulty and modified during the year ended December 31, 2023, segregated by portfolio segment and type of modification. The percentage of the amortized cost of loans that were modified to borrowers in financial distress as compared to the amortized cost of each segment of financial receivable is also presented below.

	For the year ended December 31, 2023				
(Dollars in thousands)	Payment Delay	Term Extension	Interest Rate Reduction	Combination Term Extension and Interest Rate Reduction	% of Total Segment Financing Receivables
Residential Real Estate	$ -	$ 868	$ -	$ -	0.18%
Total	$ -	$ 868	$ -	$ -	0.06%

There were no commitments to lend additional amounts to the borrowers included in the previous table.

The Bancorp closely monitors the performance of loans and leases that have been modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table shows the performance of such loans and leases that have been modified during the year ended December 31, 2023.

(Dollars in thousands)	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due
Residential Real Estate	$ 868	$ -	$ -	$ -
Total	$ 868	$ -	$ -	$ -

The borrowers with term extension have had their maturity dates extended and as a result their monthly payments were reduced.

Upon the Bancorp's determination that a modified loan has subsequently been deemed uncollectible, the loan or lease is written off. Therefore, the amortized cost of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

Troubled Debt Restructuring (TDR) Disclosures Prior to the Adoption of ASU 2022-02

During the year ending December 31, 2022, nine residential real estate loans to nine customers totaling $743 thousand were modified to include deferral of principal or interest resulting in troubled debt restructuring classification. Two home equity loans to two customers totaling $189 thousand were modified to include deferral of principal or interest resulting in troubled debt restructuring classification. One commercial real estate loan totaling $1.4 million was provided a short-term renewal resulting in troubled debt restructuring classification. No troubled debt restructuring loans had subsequently defaulted during the year ending December 31, 2022.

As of December 31, 2023, the Bancorp had one residential real estate loan in the process of foreclosure totaling $ 32 thousand. The Bancorp was not in the process of foreclosing on any residential real estate loan as of December 31, 2022.

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.

Acquired Loan Purchase Discounts

As part of the fair value of loans receivable, there was a net fair value discount for loans acquired of $ 5.2 million at December 31, 2023, compared to $5.5 million at December 31, 2022.

Accretable yield, or income recorded for the twelve months ended December 31, is as follows:

(dollars in thousands)	Total
2022	$ 1,010
2023	1,078

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

(dollars in thousands)	Total
2024	$ 673
2025	667
2026	484
2027	313
2028 and thereafter	3,068
Total	$ 5,205

AllowanceforCreditLosses

The allowance for credit losses is established for current expected credit losses on the Bancorp's loan portfolios utilizing guidance in Accounting Standards Codification (ASC) Topic 326. The Bancorp adopted ASU 2016-13 on January 1, 2023. Therefore, as of December 31, 2022, the provision for credit losses and other allowance for loan loss disclosures for the year ended December 31, 2022, were calculated under the incurred loss method.

The determination of the allowance requires significant judgment to estimate credit losses measured on a collective pool basis when similar risk characteristics exist, and for loans evaluated individually. In determining the allowance, the Bancorp estimates expected future losses for the loan's entire contractual term adjusted for expected payments when appropriate. The allowance estimate considers relevant available information, from internal and external sources relating to the historical loss experience, current conditions, and reasonable and supportable forecasts for the Bancorp's outstanding loan balances. The allowance is an estimation that reflects management's evaluation of expected losses related to the Bancorp's financial assets measured at amortized cost. To ensure that the allowance is maintained at an adequate level, a detailed analysis is performed on a quarterly basis and an appropriate provision is made to adjust the allowance.

The Bancorp categorizes the loan portfolios into nine segments based on similar risk characteristics. Loans within each segment are collectively evaluated using the Probability of Default ("PD")/Loss Given Default ("LGD") methodology (PD/LGD). In creating the CECL model, the Bancorp has established a two-year reasonable and supportable forecast period with a two-year straight line reversion to the long-term historical average. Due to its minimal loss history, the Bancorp elected to use peer data for a more reasonable calculation. The following table shows the changes in the allowance for loan losses, segregated by portfolio segment, for the year ended December 31, 2023, and 2022.

The Bancorp's activity in the allowance for credit losses, by loan segment, is summarized below for the twelve months ended December 31, 2023:

(Dollars in thousands)	*Beginning Balance*	*Adoption of ASC 326*	*PCD Gross-up*	*Charge-offs*	*Recoveries*	*Provisions*	*Ending Balance*
Allowance for credit losses:							
Residential real estate	$ 3,021	$ 1,688	$ 535	$ (997)	$ 149	$ (412)	$ 3,984
Home equity	410	99	29	(43)	-	203	698
Commercial real estate	5,784	1,003	443	(372)	3	184	7,045
Construction and land development	1,253	1,735	-	-	-	1,218	4,206
Multifamily	1,007	141	-	-	131	(346)	933
Commercial business	1,365	320	5	(1,064)	265	758	1,649
Consumer	57	5	17	(95)	15	8	7
Manufactured homes	-	112	-	-	-	69	181
Government	-	55	-	-	-	10	65
Total	$ 12,897	$ 5,158	$ 1,029	$ (2,571)	$ 563	$ 1,692	$ 18,768

The Bancorp's activity in the allowance for loan losses, by loan segment, is summarized below for the twelve months ended December 31, 2022:

Allowance for loan losses:							
Residential real estate	$ 2,480	$ -	$ -	$ (29)	$ 53	$ 517	$ 3,021
Home equity	357	-	-	-	-	53	410
Commercial real estate	5,515	-	-	(431)	-	700	5,784
Construction and land development	2,119	-	-	-	-	(866)	1,253
Multifamily	848	-	-	-	-	159	1,007
Commercial business	2,009	-	-	(57)	89	(676)	1,365
Consumer	15	-	-	(91)	20	113	57
Manufactured homes	-	-	-	-	-	-	-
Government	-	-	-	-	-	-	-
Total	$ 13,343	$ -	$ -	$ (608)	$ 162	$ -	$ 12,897

A collateral dependent loan relies solely on the operation or sale of the collateral for repayment. In evaluating the overall risk associated with the loan, the Bancorp considers character, overall financial condition and resources, and payment record of the borrower; the prospects for support from any financially responsible guarantors; and the nature and degree of protection provided by the cash flow and value of any underlying collateral. However, as other sources of repayment become inadequate over time, the significance of the collateral's value increases and the loan may become collateral dependent.

The table below presents the amortized cost basis and allowance for credit losses (“ACL”) allocated for collateral dependent loans in accordance with ASC 326, which are individually evaluated to determine expected credit losses.

(Dollars in thousands)	December 31, 2023					
	Real Estate	Equipment/Inventory	Accounts Receivable	Other	Total	ACL Allocation
Residential real estate	$ 30	$ -	$ -	$ -	$ -	$ 30
Commercial real estate	2,541	-	-	-	2,541	53
Multifamily	4,244	-	-	-	4,244	85
Commercial business	-	1,583	1,557	192	3,332	738
	$ 6,815	$ 1,583	$ 1,557	$ 192	$ 10,117	$ 906

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 $ 3.5 million and $4.6 million as of December 31, 2023, and December 31, 2022, respectively, and is included in net deferred loan origination cost.

The following table presents non–accrual loans, and loans past due over 90 days still on accrual by class of loans:

As of December 31, 2023	Nonaccrual with No Allowance for Credit Loss	Nonaccrual	Loans Past Due over 90 Days Still Accruing
Residential real estate	$ 442	$ 1,251	$ 1,131
Home equity	161	307	-
Commercial real estate	603	230	712
Construction and land development	-	-	-
Multifamily	2,357	1,358	-
Commercial business	1,724	1,173	-
Consumer	-	2	-
Manufactured homes	-	-	-
Government	-	-	-
Total	$ 5,287	$ 4,321	$ 1,843

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 December 31, 2022:						
Residential real estate	$ 24	$ 2,997	$ 484,595	$ 1,518	$ 988	$ 482,089
Home equity	3	407	38,978	294	125	38,559
Commercial real estate	13	5,771	486,431	2,392	2,935	481,104
Construction and land development	-	1,253	108,926	-	-	108,926
Multifamily	-	1,007	251,014	6,739	382	243,893
Commercial business	297	1,068	93,278	1,758	953	90,567
Consumer	-	57	918	-	17	901
Manufactured homes	-	-	34,882	-	-	34,882
Government	-	-	9,549	-	-	9,549
Total	$ 337	$ 12,560	$ 1,508,571	$ 12,701	$ 5,400	$ 1,490,470

(dollars in thousands)	December 31, 2023 Interest income recognized during the period on nonaccrual loans
Residential real estate	$ 173
Home equity	19
Commercial real estate	70
Construction and land development	9
Multifamily	31
Commercial business	156
Consumer	2
Total	$ 460

(Dollars in thousands)	As of December 31, 2022 Recorded Investment	Unpaid Principal Balance	Related Allowance	For the twelve months ended December 31, 2022 Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential real estate	$ 2,255	$ 3,711	$ -	$ 2,528	$ 202
Home equity	399	416	-	253	12
Commercial real estate	5,314	5,406	-	3,409	205
Construction & land development	-	-	-	344	-
Multifamily	7,121	7,163	-	3,387	16
Farmland	-	-	-	-	-
Commercial business	2,278	2,392	-	1,365	76
Consumer	17	17	-	15	-
Manufactured homes	-	-	-	-	-
Government	-	-	-	-	-
With an allowance recorded:					
Residential real estate	$ 251	$ 276	$ 24	$ 194	$ 5
Home equity	20	20	3	21	1
Commercial real estate	13	14	13	678	-
Construction & land development	-	-	-	-	-
Multifamily	-	-	-	-	-
Farmland	-	-	-	-	-
Commercial business	433	561	297	352	13
Consumer	-	-	-	-	-
Manufactured homes	-	-	-	-	-
Government	-	-	-	-	-
Total:					
Residential real estate	$ 2,506	$ 3,987	$ 24	$ 2,722	$ 207
Home equity	$ 419	$ 436	$ 3	$ 274	$ 13
Commercial real estate	$ 5,327	$ 5,420	$ 13	$ 4,087	$ 205
Construction & land development	$ -	$ -	$ -	$ 344	$ -
Multifamily	$ 7,121	$ 7,163	$ -	$ 3,387	$ 16
Farmland	$ -	$ -	$ -	$ -	$ -
Commercial business	$ 2,711	$ 2,953	$ 297	$ 1,717	$ 89
Consumer	$ 17	$ 17	$ -	$ 15	$ -
Manufactured homes	$ -	$ -	$ -	$ -	$ -
Government	$ -	$ -	$ -	$ -	$ -

Accrued interest receivable on loans totaled $ 5.7 million and is excluded from the estimate of credit losses. The Bancorp made the accounting policy election to not measure an ACL for accrued interest receivable. Accrued interest deemed uncollectible will be written off through interest income.

Liability for Credit Losses on Unfunded Loan Commitments

The liability for credit losses inherent in unfunded loan commitments is included in accrued expenses and other liabilities on the Consolidated Balance Sheet. The adequacy of the reserve for unfunded commitments is determined quarterly based on methodology similar to the methodology for determining the ACL. The following table shows the changes in the liability for credit losses on unfunded loan commitments.

(Dollars in thousands)	Year ended, December 31, 2023
Balance, beginning of period	$ -
Adoption of ASC 326	3,108
Provision	333
Balance, end of period	$ 3,441

Note 5 – ***Premises and Equipment, Net***

At year end, premises and equipment are summarized as follows:

	(Dollars in thousands) 2023	2022
Cost:		
Land	$ 11,773	$ 11,773
Buildings and improvements	41,794	40,753
Furniture and equipment	19,401	19,434
Total cost	72,968	71,960
Less accumulated depreciation	(34,532)	(31,748)
Premises and equipment, net	$ 38,436	$ 40,212

Depreciation expense was approximately $2.9 million and $3.0 million for 2023 and 2022, respectively.

Note 6 – **Goodwill and Other Intangible Assets**

At year end, goodwill and other intangible assets are summarized as follows:

(Dollars in thousands)	2023	2022
Goodwill balance January 1,	$ 22,395	$ 11,109
Goodwill acquired - Royal Financial	-	11,286
Goodwill balance December 31,	$ 22,395	$ 22,395

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. Goodwill is tested annually for impairment. 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 from previous acquisitions. The Bancorp had core deposit intangible balances of $ 3.3 million and $4.8 million as of December 31, 2023, and 2022, respectively. The table below summarizes the annual amortization:

The amortization recorded for the year ended December 31, is as follows:

(dollars in thousands)		Total
2022	$	1,552
2023	$	1,522

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

(dollars in thousands)		Total
2024	$	1,411
2025		688
2026		360
2027		294
Thereafter		519
Total	$	3,272

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 $217 thousand and $541 thousand of amortization was taken as income during the year ended December 31, 2023 and 2022, respectively. Amortization to be recorded in future periods is $124 thousand in 2024, $72 thousand in 2025, and $54 thousand thereafter.

Note 7 – ***Income Taxes***

At year-end, components of income tax expense (benefit) consist of the following:

	(Dollars in thousands)			
		2023		*2022*
Federal:				
Current	$	92	$	(169)
Deferred		(584)		1,074
State:				
Current		246		460
Deferred, net of valuation allowance		(89)		113
Income tax expense (benefit)	$	(335)	$	1,478

Effective tax rates differ from the federal statutory rate of 21% for 2023 and 2022 applied to income before income taxes due to the following:

	(Dollars in thousands) 2023	2022
Federal statutory rate	21%	21%
Tax expense at statutory rate	$ 1,689	$ 3,477
State tax, net of federal effect	124	453
Tax exempt income	(1,314)	(1,419)
Bank owned life insurance	(161)	(153)
Captive insurance	(159)	(282)
Tax credit investments	(531)	(494)
Non-deductible transaction costs	-	98
Other	17	(202)
Total income tax expense (benefit)	$ (335)	$ 1,478

At December 31, the components of the net deferred tax asset recorded in other assets in the consolidated balance sheets are as follows:

	(Dollars in thousands) 2023	2022
Deferred tax assets:		
Allowance for credit losses	$ 5,686	$ 3,346
Deferred compensation	356	361
Unrealized depreciation on securities available-for-sale, net	16,285	20,280
Net operating loss	6,546	7,010
Tax credits	683	52
Nonaccrual loan interest income	99	288
Share based compensation	293	339
Unqualified deferred compensation plan	67	65
Other-than-temporary impairment	41	42
Accrued compensation	260	55
Purchase accounting	426	364
Deferred loan costs, net of fees	337	339
Other	313	190
Total deferred tax assets	31,392	32,731
Deferred tax liabilities:		
Depreciation	(1,213)	(1,322)
Prepaid expenses	(491)	(637)
Mortgage servicing rights	(249)	(295)
Deferred stock dividends	(119)	(121)
Goodwill	(608)	(533)
Partnership	(383)	(366)
Other	(201)	(213)
Total deferred tax liabilities	(3,264)	(3,487)
Valuation allowance	(62)	-
Net deferred tax asset	$ 28,066	$ 29,244

At December 31, 2023, the Bancorp has Indiana net operating loss carryforwards of approximately $ 3.1 million which will expire in 2038 if not used. The Bancorp also has a state tax credit carryforward of approximately $79 thousand which expires from 2024 to 2033. Management has concluded that the state net operating losses are more likely than not to be utilized and therefore no valuation allowance is necessary. A valuation allowance, net of federal effect, of $62 thousand was recorded in 2023 on the state tax credit carryforward, as it is not expected to be utilized before expiration.

The Bancorp acquired $3.3 million of federal net operating loss carryforwards and $ 7.2 million of Illinois net operating loss carryforwards with the acquisition of First Personal Financial Corp during 2018, of which $2.2 million of the federal losses expire in years ranging from 2029 to 2035, $1.1 million of the federal losses do not expire, and the Illinois losses expire in years ranging from 2028 to 2036. Under Section 382 of the Internal Revenue Code, the annual limitation on the use of the federal loss carryforwards is $362 thousand for First Personal while there is no limitation on the use of the Illinois loss carryforwards. Management has determined that all of the loss carryforwards are more likely than not to be utilized before expiration.

The Bancorp acquired $7.2 million of federal net operating loss carryforwards and $ 11.4 million of Illinois net operating loss carryforwards with the acquisition of AJS Bancorp Inc. during 2019, of which $3.6 million of the federal loss carryforwards expire in years ranging from 2029 to 2034, $3.6 million of the federal loss carryforwards do not expire, and the Illinois loss carryforwards expire in years ranging from 2028 to 2037. Under Section 382 of the Internal Revenue Code, the annual limitation on the use of the federal losses is $834 thousand for AJS, while there is no limitation on the use of the Illinois loss carryforwards. Management has determined that all of the losses are more likely than not to be utilized before expiration.

The Bancorp acquired $3.3 million of federal net operating loss carryforwards and $ 57.9 million of Illinois net operating loss carryforwards with the acquisition of Royal Financial, Inc. during 2022, of which $2.7 million of the federal loss carryforwards expire in years ranging from 2030 to 2036, $623 thousand of the federal loss carryforwards do not expire, and the Illinois losses expire in years ranging from 2026 to 2032. Under Section 382 of the Internal Revenue Code, the annual limitation on the use of the federal loss carryforwards is $822 thousand for Royal, while there is no limitation on the use of the Illinois loss carryforwards. Management has determined that all of the loss carryforwards are more likely than not to be utilized before expiration.

At December 31, 2023 $6.3 million of the federal loss carryforwards, $ 68.1 million of the Illinois loss carryforward and $ 3.0 million of Indiana loss carryforwards remain; the benefit of which is reflected in deferred tax assets.

The Bancorp qualified under provisions of the Internal Revenue Code, to deduct from taxable income a provision for bad debts in excess of the provision for such losses charged to income in the financial statements, if any. Accordingly, retained earnings at both December 31, 2023 and 2022 includes, approximately $14.5 million, for which no provision for federal income taxes has been made. If, in the future this portion of retained earnings is used for any purpose other than to absorb bad debt losses, federal income taxes would be imposed at the then applicable rate. The unrecorded deferred income tax liability on the above amounts was approximately $3.8 million at both December 31, 2023 and 2022.

The Bancorp had no unrecognized tax benefits at any time during 2023 or 2022 and does not anticipate any significant increase or decrease in unrecognized tax benefits during 2023. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is the Bancorp's policy to record such accruals through income tax accounts; no such accruals existed at any time during 2023 or 2022.

The Bancorp and its subsidiaries are subject to US Federal income tax as well as income tax of the states of Indiana and Illinois. The Bancorp is no longer subject to examination by taxing authorities for the years before 2020.

Note 8 – ***Deposits***

The aggregate amount of retail and brokered certificates of deposit with a balance of $250 thousand or more was approximately $ 137.1 million at December 31, 2023 and $93.6 million at December 31, 2022. Brokered certificates of deposit totaled $ 29.9 million at December 31, 2023 and $40.0 million at December 31, 2022.

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

(Dollars in thousands)	December 31, 2023 Balance	December 31, 2022 Balance
Checking	$ 653,529	$ 755,377
Savings	302,782	402,365
Money market	324,993	254,157
Certificates of deposit	532,117	363,118
Total deposits	$ 1,813,421	$ 1,775,017

At December 31, 2023, scheduled maturities of certificates of deposit were as follows:

	(Dollars in thousands)
2024	$ 482,124
2025	41,841
2026	4,193
2027	3,678
2028 and thereafter	281
Total	$ 532,117

As of December 31, 2023, and 2022, approximately $530.2 million and $516.1 million, respectively, of our deposit portfolio was uninsured.

Note 9 – ***Borrowed Funds***

At December 31, 2023 and 2022, borrowed funds and their outstanding rates are summarized below:

	(Dollars in thousands) *December 31, 2023*	*December 31, 2022*
Fixed rate advances from the Federal Reserve with outstanding rates of 4.38% as of December 31, 2023	$ 80,000	$ -
Fixed rate advances from the FHLB with outstanding rates of 4.30% as of December 31, 2022	$ -	$ 120,000
Total	$ 80,000	$ 120,000

Outstanding borrowings at December 31, 2023 were scheduled to mature in 2024.

On March 12, 2023, the Federal Reserve Board announced the creation of a new Bank Term Funding Program (the "BTFP"). The BTFP offers loans of up to one year to banks, savings associations, credit unions, and other eligible depository institutions pledging U.S. Treasury securities, agency debt and mortgage-backed securities, and other qualifying assets as collateral. These assets are valued at par for purposes of the collateral pledge under the BTFP. During the first quarter of 2023, the Bancorp participated in the BTFP by accessing $ 100 million of low-cost capital under the program, and reducing that funding to $80 million by paying off BTFP funds as liquidity needs changed throughout the year. As of December 31, 2023, the Bancorp had pledged securities as collateral for the program with a par value of $105.3 million.

Fixed rate advances from the FHLB were collateralized by mortgage loans with a carrying value totaling approximately $ 593.0 million at December 31, 2022. In addition to the fixed rate advances, the Bank maintains a $ 25.0 million line of credit with the Federal Home Loan Bank of Indianapolis. The Bank did not have a balance on the line of credit at December 31, 2023 or 2022. The Bank had no other borrowings at December 31, 2023, or 2022.

At December 31, 2023, the Bank had available approximately $ 824.0 million in credit lines with various money center banks, including the FHLB and Federal Reserve.

Repurchase agreements generally mature within one year and are secured by U.S. government and U.S. agency securities, under the Bank's control. At December 31, information concerning these retail repurchase agreements is summarized below:

	(Dollars in thousands) 2023	2022
Ending balance	$ 38,124	$ 15,503
Average balance during the year	35,543	20,649
Maximum month-end balance during the year	48,947	28,328
Securities underlying the agreements at year end:		
Carrying value	54,458	32,660
Fair value	54,458	32,660
Average interest rate during the year	4.00%	0.94%
Average interest rate at year end	5.14%	2.43%

Note 10 – ***Employees*' *Benefit Plans***

The Bancorp maintains an Unqualified Deferred Compensation Plan (the "UDC Plan"). The purpose of the UDC Plan is to provide deferred compensation to key senior management employees of the Bancorp in order to recognize their substantial contributions to the Bank and provide them with additional financial security as inducement to remain with the Bank. The Compensation Committee selects which persons shall be participants in the UDC Plan. Participants' accounts are credited each year with an amount based on a formula involving the participant's employer funded contributions under all qualified plans and the limitations imposed by Internal Revenue Code subsection 401(a)(17) and Code section 415. The unqualified deferred compensation plan liability at December 31, 2023 and 2022 was approximately $263 thousand and $251 thousand, respectively. The UDC Plan expense amounted to approximately $7 thousand for 2023 and $4 thousand for 2022.

Directors have deferred some of their fees in consideration of future payments. Fee deferrals, including interest, totaled approximately $ 52 thousand and $53 thousand for 2023 and 2022, respectively. The deferred fee liability at both December 31, 2023 and 2022 was approximately $1.4 million.

Note 11 – ***Stock Based Compensation***

The Bancorp's 2015 Stock Option and Incentive Plan (the "Incentive Plan"), permits the grant of equity awards for up to 250,000 shares of common stock. Awards granted under the Incentive Plan may be in the form of incentive stock options, non-qualified stock options, restricted stock, unrestricted stock, performance shares, or performance units. The purposes of the Plan are (i) to align the personal interests of plan participants with those of the shareholders of the Bancorp, (ii) to encourage key individuals to accept or continue employment or service with the Bancorp and its subsidiaries, and (iii) to furnish incentives to such key individuals to improve operations and increase profits by providing such key individuals the opportunity to acquire common stock of the Bancorp or to receive monetary payments based on the value of such common stock.

Restricted stock awards are generally granted with an award price equal to the market price of the Bancorp's common stock on the award date. Restricted stock awards have been issued with a three year cliff-vesting period. Forfeiture provisions exist for personnel that separate employment before the vesting period expires. Compensation expense related to restricted stock awards is recognized over the vesting period. Total compensation cost that has been charged to expense for those plans was approximately $719 thousand and $741 thousand for the years ended December 31, 2023 and 2022, respectively.

When awarded restricted shares vest, employees of the Bank can elect to surrender a portion of their vested shares back to the Bancorp to cover the tax liability of their awards. Shares were surrendered with a total value of $196 thousand and $120 thousand for the years ended December 31, 2023 and 2022, respectively.

A summary of changes in the Bancorp's non-vested restricted stock for the year ended December 31, 2023, follows:

Non-vested Shares	*Shares*	*Weighted Average Grant Date Fair Value*
Non-vested at January 1, 2023	55,833	$ 43.87
Granted	11,137	34.10
Vested	(17,549)	44.24
Forfeited	(7,772)	43.21
Non-vested at December 31, 2023	41,649	$ 41.22

As of December 31, 2023, there was approximately $661 thousand of total unrecognized compensation cost related to non-vested restricted shares granted under the Incentive Plan. The cost is expected to be recognized over a weighted-average period of 1.2 years.

Note 12 – ***Regulatory Capital***

The Bank is subject to regulatory capital guidelines adopted by the FDIC. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet various capital requirements can initiate regulatory action. Prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2023, and 2022, the most recent regulatory notifications categorized the Bank is well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

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.

In addition, the following table shows that, at December 31, 2023, and 2022, 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	
December 31, 2023	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1 capital to risk-weighted assets	$ 168.3	10.4%	$ 72.6	4.5%	$ 104.9	6.5%
Tier 1 capital to risk-weighted assets	$ 168.3	10.4%	$ 96.9	6.0%	$ 129.1	8.0%
Total capital to risk-weighted assets	$ 183.3	11.4%	$ 129.1	8.0%	$ 161.4	10.0%
Tier 1 capital to adjusted average assets	$ 168.3	7.8%	$ 86.6	4.0%	$ 108.2	5.0%

(Dollars in millions)	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
December 31, 2022	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1 capital to risk-weighted assets	$ 161.3	10.1%	$ 71.6	4.5%	$ 103.4	6.5%
Tier 1 capital to risk-weighted assets	$ 161.3	10.1%	$ 95.5	6.0%	$ 127.3	8.0%
Total capital to risk-weighted assets	$ 174.2	10.9%	$ 127.3	8.0%	$ 159.1	10.0%
Tier 1 capital to adjusted average assets	$ 161.3	7.7%	$ 84.3	4.0%	$ 105.4	5.0%

The Bancorp's ability to pay dividends to its shareholders is largely 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 2023, without the need for qualifying for an exemption or prior DFI approval, is its 2023 net profit. 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. Additionally, as noted in the "Regulatory Developments Regarding the Bancorp and the Bank" section of the Management Discussion and Analysis, on November 7, 2023, the Bank entered into MOU with the FDIC which noted the Bank will refrain from paying cash dividends without prior regulatory approval. On December 26, 2023, the Board of Directors of the Bancorp declared a fourth quarter dividend of $0.12 per share. The Bancorp's fourth quarter dividend was paid to shareholders on February 5, 2024.

Note 13 – ***Earnings per Common 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 earnings per common share and diluted earnings per common share computations for 2023 and 2022 is presented below.

(dollars in thousands except per share data)

	2023	2022
Basic earnings per common share:		
Net income as reported	$ 8,380	$ 15,080
Weighted average common shares outstanding	4,273,824	4,176,125
Basic earnings per common share	$ 1.96	$ 3.61
Diluted earnings per common share:		
Net income as reported	$ 8,380	$ 15,080
Weighted average common shares outstanding	4,273,824	4,176,125
Add: Dilutive effect of unvested restricted stock awards	8,458	17,357
Weighted average common and dilutive potential common shares outstanding	4,282,282	4,193,482
Diluted earnings per common share	$ 1.96	$ 3.60

Note 14 – ***Related Party Transactions***

The Bancorp had aggregate loans outstanding to directors and executive officers (with individual balances exceeding $ 120 thousand) of approximately $3.8 million at December 31, 2023, and approximately $3.5 million at December 31, 2022. For the year ended December 31, 2023, the following activity occurred on these loans:

	(Dollars in thousands)
Aggregate balance at the beginning of the year	$ 3,529
New loans	650
Repayments	(383)
Aggregate balance at the end of the year	$ 3,796

Deposits from directors and executive officers totaled approximately $ 4.0 million and $3.7 million at December 31, 2023, and 2022, respectively.

Note 15 – ***Commitments and Contingencies***

The Bancorp is a party to financial instruments in the normal course of business to meet the financing needs of its customers. These financial instruments, which include commitments to make loans and standby letters of credit, are not reflected in the accompanying consolidated financial statements. Such financial instruments are recorded when they are funded.

The Bancorp's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to originate loans and standby letters of credit is represented by the contractual amount of those instruments. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. The Bancorp uses the same credit policy to make such commitments as it uses for on-balance sheet items. Since commitments to make loans may expire without being used, the amount does not necessarily represent future cash commitments.

The Bancorp had outstanding commitments to originate loans as follows:

(Dollars in thousands)	Fixed Rate	Variable Rate	Total
		(Dollars in thousands)	
December 31, 2023:			
Residential real estate	$ 7	$ 22,086	$ 22,093
Home equity	46,444	5,601	52,045
Commercial real estate	1,365	7,775	9,140
Construction and land development	13,010	35,390	48,400
Multifamily	117	1,058	1,175
Consumer	28,611	-	28,611
Commercial business	993	81,623	82,616
Lot	-	-	-
Total	$ 90,547	$ 153,533	$ 244,080
December 31, 2022:			
Residential real estate	$ 3	$ 21,980	$ 21,983
Home equity	48,796	5,636	54,432
Commercial real estate	3,166	11,610	14,776
Construction and land development	24,296	22,427	46,723
Multifamily	884	1,338	2,222
Consumer	29,586	-	29,586
Commercial business	823	75,623	76,446
Lot	-	6,143	6,143
Total	$ 107,554	$ 144,757	$ 252,311

Standby letters of credit are conditional commitments issued by the Bancorp to guarantee the performance of a customer to a third party. At December 31, 2023, and 2022, the Bancorp had standby letters of credit totaling approximately $ 18.3 million and $ 13.7 million, respectively, which are not included in the tables above. The Bancorp evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bancorp upon extension of credit, is based on management's credit evaluation of the borrower. Collateral obtained may include accounts receivable, inventory, property, land or other assets.

Note 16 – ***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:

December 31, 2023	Asset derivatives			Liability derivatives		
(Dollars in thousands)	Statement of Financial Condition classification	Fair value		Statement of Financial Condition classification	Fair value	
Interest rate swap contracts	Other assets	$	5,591	Other liabilities	$	5,591
Interest rate lock commitments	Other assets		35	N/A		-
Total		$	5,626		$	5,591

December 31, 2022	Asset derivatives			Liability derivatives		
(Dollars in thousands)	Statement of Financial Condition classification	Fair value		Statement of Financial Condition classification	Fair value	
Interest rate swap contracts	Other assets	$	8,972	Other liabilities	$	8,972
Interest rate lock commitments	Other assets		38	N/A		-
Total		$	9,010		$	8,972

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

		Year-ended			
(Dollars in thousands)	Statement of Income Classification	2023		2022	
Interest rate swap contracts	Fees and service charges	$	387	$	267
Interest rate lock commitments	Gain on sale of loans held-for-sale, net		(3)		(103)
Total		$	384	$	164

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

(Dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Assets Presented in the Statement of Financial Condition	Gross Amounts not Offset in the Statement of Financial Condition: Financial Instruments	Gross Amounts not Offset in the Statement of Financial Condition: Cash Collateral Received	Net Amount
December 31, 2023						
Interest rate swap contracts	$ 5,591	$ -	$ 5,591	$ -	$ 4,050	$ 1,541
Interest rate lock commitments	35	-	35	-	-	35
Total	$ 5,626	$ -	$ 5,626	$ -	$ 4,050	$ 1,576

(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 Received	Net Amount
December 31, 2022						
Interest rate swap contracts	$ 8,972	$ -	$ 8,972	$ -	$ -	$ 8,972
Interest rate lock commitments	38	-	38	-	-	38
Total	$ 9,010	$ -	$ 9,010	$ -	$ -	$ 9,010

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
December 31, 2023						
Interest rate swap contracts	$ 5,591	$ -	$ 5,591	$ -	$ -	$ 5,591
Total	$ 5,591	$ -	$ 5,591	$ -	$ -	$ 5,591

(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, 2022						
Interest rate swap contracts	$ 8,972	$ -	$ 8,972	$ -	$ 3,930	$ 5,042
Total	$ 8,972	$ -	$ 8,972	$ -	$ 3,930	$ 5,042

Note 17 – ***Fair Values of Financial Instruments***
The Fair Value Measurements Topic (the "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 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.

Prior to the adoption of ASU 2016-13, declines in the fair value of securities below their cost deemed to be other-than-temporary impairment ("OTTI") were reflected in operations as realized losses. Upon adoption of ASU 2016-13, for securities in a loss position, the Company evaluates whether the decline in fair value below amortized cost resulted from a credit loss or other factors, and if the loss is attributable to credit loss, the loss is recognized through an allowance for credit losses on securities. In assessing credit loss, the Company considers, among other things: the extent to which fair value is less than the amortized cost basis, adverse conditions specific to the security or industry, historical payment patterns, the likelihood of future payments and changes to the rating of a security by a rating agency. The full amount of the loss will be charged to earnings if the Company intends to sell an impaired security or it is more likely than not that the Company would be required to sell an impaired security before recovering its amortized cost basis. Changes in the allowance for credit losses would be recorded as a provision for credit losses. Losses would be charged against the allowance when management believes the security is uncollectible or management intends to sell or is required to sell the security.

Impairment related to a credit loss must be measured using the discounted cash flow method. Credit loss recognition is limited to the fair value of the security. The impairment is recognized by establishing an ACL through provision for credit losses. Impairment related to noncredit factors is recognized in accumulated other comprehensive income, net of applicable taxes. The Bank evaluates AFS security impairment on a quarterly basis. ASC 326 allows for prospective adoption of previously recorded other-than-temporary impairment on AFS securities. This allows the Bank to maintain the same amortized cost basis of the securities before and after adoption date. At adoption, the Bank has $173 thousand of previously recorded credit impairment on trust preferred AFS securities. The Bank believes this continues to represent the expected credit losses of the amortized cost basis, therefore, has established an ACL for AFS debt securities. The ACL is monitored quarterly and is measured by evaluating the present value of cash flows as compared to the amortized cost basis of the security. To the extent that there are improvements in credit related to these securities, the ACL will be reduced to account for the improvements. If any improvements in credit exceed the amount of previously reduced amortized cost bases, recoveries will be recorded through the income statement in the period received.

The table below shows the allowance for collateralized debt credit losses:

	(Dollars in thousands) *Allowance for collateralized debt credit losses*
Ending balance, December 31, 2022	$ 173
Additions not previously recognized	-
Ending balance, December 31, 2023	$ 173

The Bancorp’s subordination for each trust preferred security is calculated by taking the total performing collateral and subtracting the sum of the total collateral within the Bancorp’s class and the total collateral within all senior classes, and then stating this result as a percentage of the total performing collateral. This measure is an indicator of the level of collateral that can default before potential cash flow disruptions may occur. In addition, management calculates subordination assuming future collateral defaults by utilizing the default/deferral assumptions in the Bancorp’s impairment analysis. Subordination assuming future default/deferral assumptions is calculated by deducting future defaults from the current performing collateral. At December 31, 2023 and 2022, management reviewed the subordination levels for each security in context of the level of current collateral defaults and deferrals within each security; the potential for additional defaults and deferrals within each security; the length of time that the security has been in “payment in kind” status; and the Bancorp’s class position within each security.

At December 31, 2023 and 2022, the trust preferred securities with a cost basis of $ 2.2 million have been placed in “payment in kind” status. The Bancorp’s securities that are classified as “payment in kind” are a result of not receiving the scheduled quarterly interest payments. For the securities in “payment in kind” status, management anticipates to receive the unpaid contractual interest payments from the issuer, because of the self-correcting cash flow waterfall provisions within the structure of the securities. When a tranche senior to the Bancorp’s position fails the coverage test, the Bancorp’s interest cash flows are paid to the senior tranche and recorded as a reduction of principal. The coverage test represents an over collateralization target by stating the balance of the performing collateral as a percentage of the balance of the Bancorp’s tranche, plus the balance of all senior tranches. The principal reduction in the senior tranche continues until the appropriate coverage test is passed. As a result of the principal reduction in the senior tranche, more cash is available for future payments to the Bancorp’s tranche. 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.

The fair value of the Bancorp’s interest rate swap contracts, both assets and liabilities, are valued by a third-party pricing agent using an income approach and are classified within Level 2 of the valuation hierarchy.

The fair value of the Bancorp’s interest rate lock commitments is based on the price of the underlying loans expected to be sold to an investor while taking into consideration the probability the rate lock commitments will close and are classified within Level 2 of the valuation hierarchy. The Bancorp utilized a third party pricing service for classifying and valuing the fair value of trust preferred securities held. These securities were categorized as unobservable Level 3 and priced using an Option-Adjusted Discounted Cash flow model to value these securities. The significant inputs to this model include yield, prepayment speed, default rate, and loss severity.

Assets and Liabilities Measured at Fair Values on a Recurring Basis

There were no transfers to or from Levels 1 and 2 during the years ended December 31, 2023 and 2022. Changes in Level 3 assets relate to the result of changes in estimated fair values, payments received, and sales of securities that have been classified as Level 3 during all of 2023 and 2022. Assets measured at fair value on a recurring basis are summarized below:

		(Dollars in thousands) Fair Value Measurements at December 31, 2023 Using		
(Dollars in thousands)	Estimated Fair Value	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	$ 5,591	$ -	$ 5,591	$ -
Interest rate lock commitments	35	-	35	-
Available-for-sale debt securities:				
U.S. government sponsored entities	7,883	-	7,883	-
Collateralized mortgage obligations and residential mortgage-backed securities	123,464	-	123,464	-
Municipal securities	238,670	-	238,670	-
Collateralized debt obligations	1,357	-	-	1,357
Total securities available-for-sale	$ 371,374	$ -	$ 370,017	$ 1,357
Liabilities:				
Interest rate swap contracts	$ 5,591	$ -	$ 5,591	$ -

		(Dollars in thousands) Fair Value Measurements at December 31, 2022 Using		
(Dollars in thousands)	Estimated Fair Value	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	$ 8,972	$ -	$ 8,972	$ -
Interest rate lock commitments	38	-	38	-
Available-for-sale debt securities:				
U.S. government sponsored entities	7,625	-	7,625	-
U.S. treasury securities	389	-	389	-
Collateralized mortgage obligations and residential mortgage-backed securities.	134,116	-	134,116	-
Municipal securities	227,718	-	227,718	-
Collateralized debt obligations	1,048	-	-	1,048
Total securities available-for-sale	$ 370,896	$ -	$ 369,848	$ 1,048
Liabilities:				
Interest rate swap contracts	$ 8,972	$ -	$ 8,972	$ -

A reconciliation of available-for-sale securities, which require significant adjustment based on unobservable data, is presented below:

		(Dollars in thousands) *Estimated Fair Value Measurements Using Significant Unobservable Inputs (Level 3)*
		Available-for-sale securities
Beginning balance, January 1, 2022	$	992
Principal payments		-
Total unrealized gains, included in other comprehensive income		56
Ending balance, December 31, 2022	$	1,048
Beginning balance, January 1, 2023	$	1,048
Principal payments		(3)
Total unrealized gains, included in other comprehensive loss		312
Ending balance, December 31, 2023	$	1,357

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

Assets and liabilities 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 December 31, 2023 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral dependent loans	$ 8,673	$ -	$ -	$ 8,673

(Dollars in thousands)	Estimated Fair Value	(Dollars in thousands) Fair Value Measurements at December 31, 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	$ 2,620	$ -	$ -	$ 2,620

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. Collateral dependent loans can include accruing loans that exhibit risk characteristics which differ from their pool or non-performing loans with risk characteristics not similar to other special attention loans in their pool. Individual reserves are determined based on an analysis of the loan's expected future cash flows, the loan's observable market value, or the fair value of the collateral less costs to sell. When foreclosure is probable, impairment is determined based on the collateral's fair value less costs to sell. As a practical expedient, fair value less costs to sell may be used when developing the estimate of credit losses.

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)	December 31, 2023		Estimated Fair Value Measurements at December 31, 2023 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	$ 86,008	$ 86,008	$ 86,008	$ -	$ -
Loans held-for-sale	340	349	-	349	-
Loans receivable, net	1,493,827	1,412,069	-	-	1,412,069
Federal Home Loan Bank stock	6,547	6,547	-	6,547	-
Accrued interest receivable	8,045	8,045	-	8,045	-
Financial liabilities:					
Non-interest bearing deposits	295,594	295,594	295,594	-	-
Interest bearing deposits	1,517,827	1,513,640	985,710	527,930	-
Repurchase agreements	38,124	37,938	31,033	6,905	-
Borrowed funds	80,000	79,791	-	79,791	-
Accrued interest payable	3,065	3,065	-	3,065	-

(Dollars in thousands)	December 31, 2022		Estimated Fair Value Measurements at December 31, 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	$ 31,282	$ 31,282	$ 31,282	$ -	$ -
Certificates of deposit in other financial institutions	2,456	2,404	-	2,404	-
Loans held-for-sale	1,543	1,555	-	1,555	-
Loans receivable, net	1,500,734	1,437,496	-	-	1,437,496
Federal Home Loan Bank stock	6,547	6,547	-	6,547	-
Accrued interest receivable	7,421	7,421	-	7,421	-
Financial liabilities:					
Non-interest bearing deposits	359,092	359,092	359,092	-	-
Interest bearing deposits	1,415,925	1,414,738	1,052,807	361,931	-
Repurchase agreements	15,503	15,361	7,975	7,386	-
Borrowed funds	120,000	119,689	-	119,689	-
Interest rate swap agreements	8,972	8,972	-	8,972	-
Accrued interest payable	336	336	-	336	-

The following methods were used to estimate the fair value of financial instruments presented in the preceding table for the periods ended December 31, 2023 and 2022:

Cash and cash equivalent carrying amounts approximate fair value. Certificates of deposits in other financial institutions fair value amounts are based on estimates of the rate the Bancorp would receive on similar deposits (Level 2). Loans held-for-sale comprise residential mortgages and are priced based on values established by the secondary mortgage markets (Level 2). 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. 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). The fair value of FHLB Advances and proceeds from the Federal Reserve BTFP are estimated by discounting the future cash flows using quoted rates for similar advances with similar maturities (Level 2). The estimated fair value of other financial instruments, and off-balance sheet loan commitments, approximate cost and are not considered significant to this presentation.

Note 18 – ***Parent Company Only Statements***

(Dollars in thousands)
Finward Bancorp
Condensed Balance Sheets

	December 31, 2023	*December 31, 2022*
Assets		
Cash on deposit with Peoples Bank	$ 3,846	$ 2,061
Investment in Peoples Bank	144,266	131,431
Investment in NWIN Risk Management, Inc	-	2,401
Dividends receivable from Peoples Bank	516	1,331
Other assets	-	538
Total assets	$ 148,628	$ 137,762
Liabilities and stockholders' equity		
Dividends payable	$ 516	$ 1,333
Other liabilities	767	36
Total liabilities	1,283	1,369
Additional paid in capital	69,555	69,032
Accumulated other comprehensive (loss)	(51,613)	(64,300)
Retained earnings	129,403	131,661
Total stockholders' equity	147,345	136,393
Total liabilities and stockholders' equity	$ 148,628	$ 137,762

(Dollars in thousands)
Finward Bancorp
Condensed Statements of Income
Year Ended December 31,

	2023	*2022*
Dividends from Peoples Bank	$ 4,529	$ 24,263
Dividends from NWIN Risk	66	925
Operating expenses	(104)	(117)
Income before income taxes and equity in undistributed income of Peoples Bank	4,491	25,071
Income tax benefit	(21)	(50)
Income before equity in undistributed income of Peoples Bank	4,512	25,121
Equity in undistributed (distributions in excess of) income of Peoples Bank income of NWIN Risk Management, Inc	731	431
Net income	$ 8,380	$ 15,080

	(Dollars in thousands) Finward Bancorp Condensed Statements of Comprehensive Income Year Ended December 31,	
	2023	*2022*
Net Income	$ 8,380	$ 15,080
Net change in net unrealized gains and losses on securities available-for-sale:		
Unrealized loss arising during the period	16,630	(89,323)
Less: reclassification adjustment for gains (loss) included in net income	48	(662)
Net securities gain (loss) during the period	16,678	(89,985)
Tax effect	(3,991)	21,409
Other comprehensive loss, net of tax	12,687	(68,576)
Comprehensive (loss) income, net of tax	$ 21,067	$ (53,496)

	(Dollars in thousands) Finward Bancorp Condensed Statements of Cash Flows Year Ended December 31,	
	2023	*2021*
Cash flows from operating activities:		
Net income	$ 8,380	$ 15,080
Adjustments to reconcile net income to net cash provided by operating activities		
Distributions in excess of income (equity in undistributed income):		
Peoples Bank	(3,137)	10,472
NWIN Risk Management, Inc	(729)	(431)
Stock based compensation expense	718	741
Change in other assets	1,353	(218)
Change in other liabilities	731	(846)
Net cash provided by operating activities	7,316	24,798
Cash flows from investing activities:		
Cash and cash equivalents from acquisition activity, net	-	(18,725)
Net cash used in investing activities	-	(18,725)
Cash flows from financing activities:		
Dividends paid	(5,335)	(5,075)
Net surrender value of restricted stock awards	(196)	(120)
Net cash used in financing activities	(5,531)	(5,195)
Net change in cash	1,784	878
Cash at beginning of year	2,061	1,183
Cash at end of year	$ 3,846	$ 2,061
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	$ 335	$ 1,347
Dividends declared not paid	516	1,332

Note 19 – ***Subsequent Events***
Entry into A Material Definitive Agreement

Sale-Leaseback Transaction - On January 29, 2024, the Bank entered into an agreement for the purchase and sale of property (the “Sale Agreement”), with MountainSeed Real Estate Services, LLC (the “Buyer”), a Georgia limited liability company, which provides for the sale to the Buyer of 5 properties owned and operated as branch locations by the Bank (the “Properties”) for an aggregate purchase price of $17.2 million, including certain closing adjustments. Four of the Properties are located in Lake County, Indiana and one Property is located in Cook County, Illinois.

Under the Sale Agreement, the Bank agreed, concurrently with the closing of the sale of the Properties, to enter into lease agreements (the “Lease Agreements”) with the Buyer under which the Bank will lease each of the Properties. Each of the Lease Agreements has an initial term of 15 years. The Bank’s obligations under the Lease Agreements are guaranteed by the Bancorp. The sale-leaseback transaction closed on February 22, 2024.

The Bancorp did not close any branches or exit any markets as part of the sale-leaseback transaction.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no items reportable under this item.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of the Bancorp’s disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended, as of December 31, 2023. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of December 31, 2023, the Bancorp’s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Bancorp in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms and such information is accumulated and communicated to the Bancorp’s management, including its principal executive and principal financial officers as appropriate to allow timely decisions regarding required disclosure.

There were no changes in the Bancorp’s internal control over financial reporting during the year ended December 31, 2023, that have materially affected or are reasonably likely to affect, the Bancorp’s internal control over financial reporting.

Management’s Report on Internal Control Over Financial Reporting

The management of the Bancorp is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Bancorp’s internal control over financial reporting is a process designed under the supervision of the Bancorp’s Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Bancorp’s financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

As of December 31, 2023, management assessed the effectiveness of the Bancorp’s internal control over financial reporting based on the framework established in the “Internal Control - Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management has determined that the Bancorp’s internal control over financial reporting was effective as of December 31, 2023, based on the criteria specified.

This Annual Report on Form 10-K does not include an attestation report of the Bancorp’s registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Bancorp’s registered public accounting firm pursuant to Securities and Exchange Commission rules that permit the Bancorp to provide only management's report in this annual report.

Item 9B. Other Information

There are no items reportable under this item.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information contained under the sections captioned "Proposal 1 - Election of Directors," "Corporate Governance - Board Committees," "Security Ownership by Certain Beneficial Owners and Management," "Delinquent Section 16(a) Reports" and "Corporate Governance - Code of Ethics" in the Bancorp's definitive Proxy Statement for the 2024 Annual Meeting of Shareholders is incorporated herein by reference. Information regarding the Bancorp's executive officers is included under Item 4.5 captioned "Information About Our Executive Officers" at the end of Part I hereof and is incorporated herein by reference, in accordance with General Instruction G(3) to Form 10-K and the Instruction to Item 401 of Regulation S-K.

Item 11. Executive Compensation

The information contained under the section captioned "Executive Compensation" in the Bancorp's definitive Proxy Statement for its 2024 Annual Meeting of Shareholders is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information contained within the Bancorp's definitive Proxy Statement for the 2024 Annual Meeting of Shareholders, under the section captioned "Security Ownership by Certain Beneficial Owners and Management," and the table providing information on the Bancorp's director nominees and continuing directors in the section captioned "Proposal 1 - Election of Directors," is incorporated herein by reference.

Equity Compensation Plan Information

The following table provides certain information as of December 31, 2023 with respect to the Bancorp's existing equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column a) (c)
Equity compensation plans approved by security holders	-	$ -	224,845
Total	-	$ -	224,845

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information contained under the sections captioned "Transactions with Related Persons" and "Corporate Governance-Director Independence," and the information contained in the "Summary Compensation Table for 2023" under the section captioned "Executive Compensation," in the Bancorp's definitive Proxy Statement for its 2024 Annual Meeting of Shareholders, is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services (FORVIS, LLP PCAOB 686, Indianapolis, IN)

The information contained under the section captioned "Independent Registered Public Accounting Firm's Services and Fees" in the Bancorp's definitive Proxy Statement for its 2024 Annual Meeting of Shareholders, is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) (1) Financial Statements:

The following consolidated financial statements of the Bancorp and the reports of the Bancorp's independent registered public accounting firm are included in Part II, Item 8 of this Form 10-K:

(2) Financial Statement Schedules: Not Applicable.

(3) Exhibits:

Exhibit Number		Description
2.1 @		Agreement and Plan of Merger by and among Finward Bancorp and Royal Financial, Inc. dated July 28, 2021 (incorporated herein by reference to Exhibit 2.1 of the Bancorp's Form 8-K dated July 29, 2021).
3.1		Restated Articles of Incorporation of Finward Bancorp (incorporated herein by reference to Exhibit 3.1 of the Bancorp's Form 8-K dated March 2, 2023).
3.2		Amended and Restated By-Laws of Finward Bancorp (Amended and Restated as of November 29, 2022) (incorporated herein by reference to Exhibit 3.2 of the Bancorp's Form 8-K dated December 2, 2022).
4.1		Description of the Registrant's Securities Registered under Section 12 of the Securities Exchange Act of 1934. (incorporated herein by reference to Exhibit 4.1 of the Bancorp's Form 10-K filed on March 30, 2023).
10.1	*	Unqualified Deferred Compensation Plan for the Officers of Peoples Bank effective January 1, 2005 (incorporated herein by reference to Exhibit 10.1 of the Bancorp's Form 10-K filed on March 5, 2019).
10.2	*	Amended Post 2004 Unfunded Deferred Compensation Plan for the Directors of Peoples Bank effective January 1, 2005 (incorporated herein by reference to Exhibit 10.2 of the Bancorp's Form 10-K filed on March 5, 2019).
10.3	*	Amended and Restated 2015 Stock Option and Incentive Plan of Finward Bancorp (incorporated herein by reference to Exhibit 10.1 of the Bancorp's Form 8-K dated March 2, 2022).
10.4	*	Form of Nonqualified Stock Option Agreement under the Amended and Restated Finward Bancorp 2015 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.4 of the Bancorp's Form 10-K filed on March 30, 2022).
10.5	*	Form of Incentive Stock Option Agreement under the Amended and Restated Finward Bancorp 2015 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.5 of the Bancorp's Form 10-K filed on March 30, 2022).

10.6	*	Form of Agreement for Restricted Stock under the Amended and Restated Finward Bancorp 2015 Stock Option and Incentive Plan. (incorporated herein by reference to Exhibit 10.6 of the Bancorp's Form 10-K filed on March 30, 2022).
10.7	*	Employment Agreement between Finward Bancorp, Peoples Bank, and Benjamin J. Bochnowski dated August 1, 2017 (incorporated herein by reference to Exhibit 10.1 of the Bancorp's Form 8-K dated August 4, 2017).
10.8	*	First Amendment to Employment Agreement between Finward Bancorp, Peoples Bank, and Benjamin J. Bochnowski dated as of July 27, 2018 (incorporated herein by reference to Exhibit 10.2 of the Bancorp's Form 8-K dated July 30, 2018).
10.9	*	Second Amendment to Employment Agreement between Finward Bancorp, Peoples Bank, and Benjamin J. Bochnowski dated as of March 15, 2023 (incorporated herein by reference to Exhibit 10.3 of the Bancorp's Form 8-K dated March 17, 2021).
10.10	*	Third Amendment to Employment Agreement between Finward Bancorp, Peoples Bank, and Benjamin J. Bochnowski dated as of May 3, 2021 (incorporated herein by reference to Exhibit 10.2 of the Bancorp's Form 8-K dated May 5, 2021).
10.11	*	Form of Non-Solicitation and Confidentiality Agreement between Peoples Bank and each of its Executive Officers (incorporated herein by reference to Exhibit 10.2 of the Bancorp's Form 10-Q filed on May 9, 2018).
10.12	*	Finward Bancorp Executive Change in Control Severance Plan (incorporated herein by reference to Exhibit 10.1 of the Bancorp's Form 10-Q filed on October 29, 2019).
10.13	*	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).
10.14	*	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).
10.15		Transition Agreement, General Release & Covenant Not to Sue dated December 1, 2023 by and among Finward Bancorp, Peoples Bank, and Peymon Torabi (incorporated herein by reference to Exhibit 10.1 to the Bancorp's Form 8-K dated December 7, 2023).
10.16		Agreement For Purchase And Sale Of Property, dated January 29, 2024, by and between Peoples Bank and MountainSeed Real Estate Services, LLC (incorporated herein by reference to Exhibit 10.1 to the Bancorp's Form 8-K dated January 31, 2024).
10.17		Lease Agreement – Crown Point Banking Center (incorporated herein by reference to Exhibit 10.2 to the Bancorp's Form 8-K dated January 31, 2024).
10.18		Lease Agreement – East Chicago Banking Center (incorporated herein by reference to Exhibit 10.3 to the Bancorp's Form 8-K dated January 31, 2024).

10.19	Lease Agreement – Merrillville (Broadway) Banking Center (incorporated herein by reference to Exhibit 10.4 to the Bancorp's Form 8-K dated January 31, 2024).
10.20	Lease Agreement – Schererville Banking Center (incorporated herein by reference to Exhibit 10.5 to the Bancorp's Form 8-K dated January 31, 2024).
10.21	Lease Agreement – Orland Park (Ravinia) Banking Center (incorporated herein by reference to Exhibit 10.6 to the Bancorp's Form 8-K dated January 31, 2024).
21	Subsidiaries of the Bancorp.
23.1	FORVIS, LLP – Consent of Independent Registered Public Accounting Firm.
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	Section 1350 Certifications.
97	Compensation Recovery Policy (2023) FINWARD BANCORP
101	The following materials from the Bancorp's Form 10-K for the fiscal year ended December 31, 2023, formatted in an XBRL Interactive Data File: (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Comprehensive Income; (iv) Consolidated Statements of Changes in Stockholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements, with detailed tagging of notes and financial statement schedules.
104	Cover Page Interactive Data File (embedded within the Inline XBRL and contained in Exhibit 101).

@ – The Bancorp has omitted schedules and similar attachments to the subject agreement pursuant to Item 601(b) of Regulation S-K. The Bancorp will furnish a copy of any omitted schedule or similar attachment to the SEC upon request.
* - The indicated exhibit is a management contract, compensatory plan or arrangement required to be filed by Item 601 of Regulation S-K.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

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

Date: March 28, 2024

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on March 28, 2024:

Signature	**Title**
Principal Executive Officer:	
/s/Benjamin J. Bochnowski Benjamin J. Bochnowski	President and Chief Executive Officer, Director
Principal Financial Officer and Principal Accounting Officer:	
/s/Benjamin L. Schmitt Benjamin L. Schmitt	Senior Vice President, Chief Financial Officer and Treasurer
The Board of Directors:	
/s/Joel Gorelick Joel Gorelick	Chairman of the Board
/s/Robert Youman Robert Youman	Director
/s/Anthony M. Puntillo Anthony M. Puntillo	Director
/s/James L. Wieser James L. Wieser	Director
/s/Amy W. Han Amy W. Han	Director
/s/Danette Garza Danette Garza	Director
/s/Robert E. Johnson III Robert E. Johnson III	Director
/s/Kenneth V. Krupinski Kenneth V. Krupinski	Director

Exhibit 21

Subsidiaries of the Bancorp

Name	Jurisdiction of Organization
Peoples Bank	Indiana
NWIN, LLC	Nevada
NWIN, Holdings	Nevada
NWIN, Investments, Inc.	Nevada
NWIN Funding	Maryland
Peoples Service Corporation	Indiana
Columbia Development, LLC	Indiana

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement No. 333-204548 on Form S-8 and in Registration Statement No. 333-144699 on Form S-3 of Finward Bancorp (the “Company”) of our report dated March 28, 2024, on our audits of the consolidated financial statements of the Company as of December 31, 2023 and 2022 and for each of the years then ended, which report is included in this Annual Report on Form 10-K.

/s/ FORVIS, LLP

Indianapolis, Indiana
March 28, 2024

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 annual report on Form 10-K 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: March 28, 2024

/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, Benjamin L. Schmitt, certify that:

1. I have reviewed this annual report on Form 10-K 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: March 28, 2024

/s/ Benjamin L. Schmitt
Benjamin L. Schmitt
Senior Vice President, Chief
Financial Officer and Treasurer

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 Annual Report on Form 10-K of Finward Bancorp (the "Company") for the year ended December 31, 2023, as filed with the Securities and Exchange Commission (the "Report"), each of Benjamin J. Bochnowski, President and Chief Executive Officer of the Company, and Benjamin L. Schmitt, Senior 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.

Dated: March 28, 2024

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

/s/Benjamin L. Schmitt
Benjamin L. Schmitt
Senior Vice President, Chief
Financial Officer and Treasurer

A signed original of this written statement required by Section 906 has been provided to and is being retained by Finward Bancorp and will be forwarded to the Securities and Exchange Commission or its staff upon request.

Exhibit 97

FINWARD BANCORP
COMPENSATION RECOVERY POLICY
Adopted November 17, 2023

I. INTRODUCTORY STATEMENT OF POLICY

All applicable compensation provided by Finward Bancorp and its subsidiaries and affiliates (collectively, " Finward" or the "Company") to employees is provided subject to all applicable laws and regulations providing for the forfeiture, disgorgement, recoupment, or diminution of incentive compensation (commonly referred to as "clawback" or "recovery") and to the additional terms and conditions of this Compensation Recovery Policy (the "Policy").

Finward believes that incentive compensation offered to its employees should be subject to recovery in order to incentivize employees to manage the Company's risks carefully and avoid acts and practices that expose the Company to undue risk of short- or long-term financial loss, reputational damage, or similar adverse impacts, and to ensure that incentive compensation realized by employees fairly reflects the short- and long-term value of the services provided by the employees. The primary method of subjecting incentive compensation to recovery is through compensation design features which expose Finward's employees to loss of potential compensation in the event of such adverse impacts. These design features include payout deferrals and multi-year performance and vesting periods. In addition, certain officers of the Company are expected to hold specified amounts of Finward common stock under the Company's Stock Ownership Guidelines while employed in such positions, further exposing them to risk of financial loss in the event of adverse impacts. These design features and holding mandates serve similar objectives as post-payout recovery policies and are addressed in other policies.

Despite these design features and holding requirements, Finward acknowledges that in certain circumstances they may be insufficient as an incentive for employees to avoid undue risk-taking and ensure the fairness of realized compensation. To address these circumstances, the Board of Directors (the "Board") of Finward believes it is in the best interests of the Company and its shareholders to adopt this Policy, which addresses the recovery of incentive compensation awarded to certain employees under the circumstances specified herein.

The Policy is intended to comply with, and shall be interpreted to be consistent with, the requirements of applicable law and regulation, including: (i) *Guidance on Sound Incentive Compensation Policies* published by the federal banking agencies; (ii) Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"); (iii) Section 10D of the Securities Exchange Act of 1934, as amended, (the " Exchange Act"), Exchange Act Rule 10D-1, and Rule 5608 of the listing rules of the Nasdaq Stock Market ("Nasdaq Listing Rule 5608"); and (iv) Section 304 of the Sarbanes Oxley Act of 2002, as each may be amended from time to time.

II. ADMINISTRATION OF POLICY

Except as specifically set forth herein, this Policy shall be administered by the Compensation and Benefits Committee of the Board (the "Committee"). The Committee is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate, or advisable for the administration of this Policy. Any determinations made by the Committee shall be final and binding on all affected individuals and need not be uniform with respect to each individual covered by the Policy. In the administration of this Policy, the Committee is authorized and directed to consult with the full Board or such other committees of the Board, such as the Audit Committee, Risk Management and Compliance Committee, and the Nominating and Corporate Governance Committee, as may be necessary or appropriate as to matters within the scope of such other committee's responsibility and authority. Subject to any limitation under applicable law, the Committee may authorize and empower any officer or employee of the Company to take any and all actions necessary or appropriate to carry out the purpose and intent of this Policy (other than with respect to any recovery under this Policy involving such officer or employee).

III. DEFINITIONS

As used in this Policy, all capitalized terms not otherwise defined herein shall have the following definitions:

"Accounting Restatement" means an accounting restatement of the Company's financial statements due to the Company's material noncompliance with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.

"Applicable Period" means the three completed fiscal years immediately preceding the date on which the Company is required to prepare an Accounting Restatement, as well as any transition period (that results from a change in the Company's fiscal year) within or immediately following those three completed fiscal years (except that a transition period that comprises a period of at least nine months shall count as a completed fiscal year). The "date on which the Company is required to prepare an Accounting Restatement" is the earlier to occur of (i) the date the Board, the Committee, or the officer or officers of the Company authorized to take such action if Board action is not required concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement; or (ii) the date a court, regulator, or other legally authorized body directs the Company to prepare an Accounting Restatement, in each case regardless of if or when the restated financial statements are filed with the SEC.

"Covered Executives" means the Company's current and former executive officers, as determined by the Committee in accordance with the definition of "executive officer" set forth in Rule 10D-1 and Nasdaq Listing Rule 5608.

"Erroneously Awarded Compensation" has the meaning set forth in Section IV.B.2 of this Policy.

"Financial Reporting Measure" means any measure that is determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and any measure that is derived wholly or in part from such measure. Financial Reporting Measures include but are not limited to the following (and any measures derived from the following): Finward's stock price; TSR; revenues; net income; operating income; profitability of one or more reportable segments; financial ratios; earnings before interest, taxes, depreciation, and amortization; liquidity measures (e.g., operating cash flow); return measures (e.g., return on equity and return on assets); earnings measures (e.g., earnings per share); and any of such Financial Reporting Measures relative to a peer group, where the Company's Financial Reporting Measure is subject to an Accounting Restatement. A Financial Reporting Measure need not be presented within the Company's financial statements or included in a filing with the SEC.

"Incentive-Based Compensation" means any compensation that is granted, earned, or vested based wholly or in part upon the attainment of a Financial Reporting Measure. Incentive-Based Compensation is "received" for purposes of this Policy in the Company's fiscal period during which the Financial Reporting Measure specified in the Incentive-Based Compensation award is attained, even if the payment or grant of such Incentive-Based Compensation occurs after the end of that period.

"Nasdaq" means the Nasdaq Stock Market.

"SEC" means the U.S. Securities and Exchange Commission.

"TSR" means total shareholder return.

IV. MANDATORY RECOVERY

The Committee shall require the recovery, forfeiture, disgorgement, return, or adjustment of certain incentive-based compensation to the Company under the circumstances discussed in Section IV of this Policy.

A. Recovery Under Section 304 of the Sarbanes Oxley Act of 2002

Pursuant to Section 304 of the Sarbanes Oxley Act of 2002 (15 U.S.C. § 7243), if Finward is required to prepare an Accounting Restatement due to material noncompliance as a result of misconduct with financial reporting requirements under the securities laws, then the Chief Executive Officer and Chief Financial Officer of Finward must reimburse the Company for:

(i) any bonus or other incentive compensation or equity compensation received by the Chief Executive Officer and Chief Financial Officer, as applicable, from Finward during the 12-month period following the first public issuance or filing with the SEC (whichever occurs first) of the financial statements that were restated; and

(ii) any profits realized from the sale of Finward's securities during the 12-month period following the first public issuance or filing with the SEC (whichever occurs first) of the financial statements that were restated.

All determinations by the Committee regarding whether recovery is required under this subsection A and the extent of such recovery shall be made in accordance with any and all rules, regulations, and binding judicial interpretations construing the provisions of Section 304 of the Sarbanes Oxley Act of 2002. Any right of recovery under this subsection A is in addition to, and not in lieu of, any other rights of recovery that may be available pursuant to the other provisions of this Policy.

B. Recovery Under Section 954 of the Dodd-Frank Act

Pursuant to Section 954 of the Dodd-Frank Act, and Exchange Act Rule 10D-1 and Nasdaq Listing Rule 5608 promulgated thereunder, Finward shall require the recovery of Incentive-Based Compensation under the terms and conditions of this subsection B. Any right of recovery under this subsection B is in addition to, and not in lieu of, any other rights of recovery that may be available pursuant to the other provisions of this Policy.

This subsection B applies to Incentive-Based Compensation received by a Covered Executive: (i) after beginning services as a Covered Executive; (ii) if that person served as a Covered Executive at any time during the performance period for such Incentive-Based Compensation; and (iii) while Finward has a listed class of securities on a national securities exchange.

1. Required Recovery of Erroneously Awarded Compensation in the Event of an Accounting Restatement

In the event Finward is required to prepare an Accounting Restatement, Finward shall reasonably promptly recover the amount of any Erroneously Awarded Compensation received by any Covered Executive, as calculated pursuant to subsection B.2 hereof, during the Applicable Period.

2. Erroneously Awarded Compensation: Amount Subject to Recovery

The amount of "Erroneously Awarded Compensation" subject to recovery under this subsection B from each Covered Executive, as determined by the Committee, is the amount of Incentive-Based Compensation received by the Covered Executive that exceeds the amount of Incentive-Based Compensation that would have been received by the Covered Executive had it been determined based on the restated amounts. Erroneously Awarded Compensation shall be computed by the Committee without regard to any taxes paid by the Covered Executive in respect of the Erroneously Awarded Compensation.

By way of example, with respect to any compensation plans or programs that take into account Incentive-Based Compensation, the amount of Erroneously Awarded Compensation subject to recovery hereunder includes, but is not limited to, the amount contributed to any notional account based on Erroneously Awarded Compensation and any earnings accrued to date on that notional amount.

For Incentive-Based Compensation based on Finward's stock price or TSR: (i) the Committee shall determine the amount of Erroneously Awarded Compensation based on a reasonable estimate of the effect of the Accounting Restatement on the stock price or TSR upon which the Incentive-Based Compensation was received; and (ii) Finward shall maintain documentation of the determination of that reasonable estimate and provide such documentation to the Nasdaq.

3. Method of Recovery

The Committee shall determine, in its sole discretion, the timing and method for promptly recouping Erroneously Awarded Compensation hereunder, which may include without limitation: (i) seeking reimbursement of all or part of any cash or equity-based award; (ii) cancelling prior cash or equity-based awards, whether vested or unvested or paid or unpaid; (iii) cancelling or offsetting against any planned future cash or equity-based awards; (iv) forfeiture of deferred compensation, subject to compliance with Section 409A of the Internal Revenue Code and the regulations promulgated thereunder; (v) any other method authorized by applicable law or contract; or (vi) any combination of any of the foregoing methods. Subject to compliance with any applicable law, the Committee may affect recovery under this subsection B from any amount otherwise payable to the Covered Executive, including amounts payable to such individual under any otherwise applicable Company plan or program, including base salary, bonuses, or commissions and compensation previously deferred by the Covered Executive. Any determinations concerning the method of recovery made by the Committee may take into consideration, in the sole discretion of the Committee, the facts and circumstances of the Covered Executive and need not be uniform with respect to each individual covered by the Policy.

Finward is authorized and directed pursuant to subsection B of this Policy to recover Erroneously Awarded Compensation in compliance herewith unless the Committee has determined that recovery would be impracticable solely for any one of the following limited reasons, and subject to the following procedural and disclosure requirements:

- The direct expense paid to a third party to assist in enforcing subsection B of this Policy would exceed the amount to be recovered. Before concluding that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on expense of enforcement, the Committee must make a reasonable attempt to recover such Erroneously Awarded Compensation, document such reasonable attempt(s) to recover, and provide that documentation to the Nasdaq.
- Recovery would violate U.S. law that was adopted prior to November 28, 2022. Before concluding that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on violation of U.S. law, the Committee must satisfy the applicable opinion and disclosure requirements of Rule 10D-1 and Nasdaq Listing Rule 5608.
- Recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of Finward, to fail to meet the requirements of 26 U.S.C. § 401(a)(13) or 26 U.S.C. § 411(a) and the regulations promulgated thereunder.

4. No Indemnification of Covered Executives

Notwithstanding the terms of any indemnification or insurance policy or any contractual arrangement with any Covered Executive that may be interpreted to the contrary, Finward shall not indemnify any Covered Executive against the loss of any Erroneously Awarded Compensation under this subsection B, including any payment or reimbursement for the cost of third-party insurance purchased by any Covered Executive to fund potential recovery obligations under this subsection B.

5. Effective Date; Retroactive Application

Subsection IV.B of this Policy shall be effective as of October 2, 2023 (the " Dodd-Frank Recovery Effective Date"). The terms of the recovery obligations set forth in subsection IV.B of this Policy shall apply to any Incentive-Based Compensation that is received by Covered Executives on or after the Dodd-Frank Recovery Effective Date, even if such Incentive-Based Compensation was approved, awarded, granted, or paid to a Covered Executive prior to the Dodd-Frank Recovery Effective Date. Without limiting the generality of subsection IV.B.3 hereof, and subject to applicable law, the Committee may affect recovery under this subsection IV.B from any amount of compensation approved, awarded, granted, payable, or paid to the Covered Executive prior to, on, or after the Dodd-Frank Recovery Effective Date.

V. DISCRETIONARY RECOVERY APPLICABLE TO VICE PRESIDENTS AND ABOVE

In addition to any other rights of recovery or remedies available to Finward under this Policy or pursuant to applicable law, if the Board or Committee determines that it is appropriate, Finward may recover (in whole or in part) any bonus, incentive payment or compensation (including any Incentive-Based Compensation), commission, equity award, or other compensation received by an officer of Finward holding the title of Vice President or above, or from any commission-based advisor providing services to Finward (for example, a mortgage loan originator), that was based on incentive metrics or financial statements that were either fraudulent or found to be materially inaccurate. Any such bonuses, incentive payments, commissions, equity awards, or other compensation that were based on any financial results or operating metrics that were impacted by the officer's or advisor's knowing or intentional fraudulent or illegal conduct shall be deemed sufficient reasons to seek recovery of compensation under this Section V. In addition, any such compensation that was based on any financial or incentive metric that is determined to be materially inaccurate shall be subject to recovery under this Section V.

VI. DUTIES OF OFFICERS AND OTHERS; NOTICE OF RECOVERY

It is the duty of each individual officer, advisor, and Covered Executive subject to this Policy to attest to the accuracy of any financial or incentive metric used in determining such individual's bonus, incentive payment, Incentive-Based Compensation, commission, equity award, or other compensation. The acceptance of compensation by such individual will be deemed by Finward as an attestation that the incentive metrics or underlying financial statements used to determine the compensation are not based on materially inaccurate or fraudulent information.

If the Committee determines, in its sole discretion, that all or a portion of an individual's compensation is subject to recovery under this Policy, the Committee will promptly deliver to the individual a notice of recovery which will specify the amount subject to recovery under this Policy and the terms for the prompt repayment thereof.

VII. COMMITTEE INDEMNIFICATION

Any members of the Committee, and any other members of the Board who assist in the administration of this Policy, shall not be personally liable for any action, determination, or interpretation made with respect to this Policy and shall be fully indemnified by Finward to the fullest extent under applicable law and Company policy with respect to any such action, determination, or interpretation. The foregoing sentence shall not limit any other rights to indemnification of the members of the Board under applicable law or Company policy.

VIII. AMENDMENT; TERMINATION

The Board may amend, modify, supplement, rescind, or replace all or any portion of this Policy at any time and from time to time in its discretion, and shall amend this Policy as it deems necessary to comply with applicable law or any rules or standards adopted by a national securities exchange on which Finward's securities are listed.

IX. OTHER RECOVERY RIGHTS; COMPANY CLAIMS

The Board intends that this Policy shall be applied to the fullest extent of the law. This Policy supersedes in its entirety the [Compensation Recovery Policy] adopted by the Board in November 17, 2023. However, any right of recovery under this Policy is in addition to, and not in lieu of, any other remedies or rights of recovery or recoupment that may be available to Finward under applicable law or pursuant to the terms of any compensation recovery provision set forth in any employment agreement, equity award agreement, or similar agreement and any other legal remedies available to Finward, to the extent such provisions or legal remedies require recovery of compensation in additional circumstances beyond those specified in this Policy. Nothing contained in this Policy, and no recoupment or recovery as contemplated by this Policy, shall limit any claims, damages, or other legal remedies Finward or any of its affiliates may have against a Covered Executive or other officer, advisor, or employee of Finward arising out of or resulting from any actions or omissions by such individual.

X. MISCELLANEOUS

1. Successor

This Policy shall be binding and enforceable against all Covered Executives and other officers, advisors, and employees of Finward covered by this Policy, and their respective beneficiaries, heirs, executors, administrators, or other legal representatives.

2. Exhibit Filing Requirement

A copy of this Policy and any amendments thereto shall be posted on Finward's website and filed as an exhibit to Finward's annual report on Form 10-K as filed with the SEC.

3. Certification

All persons subject to this Policy must certify their understanding of, and intent to comply with, this Policy, as set forth in the attached Exhibit A.

4. Compliance with Section 409A

Any set-offs of deferred benefits to recoup the amounts to be repaid by Covered Executives, officers, advisors, employees, or other individuals covered under this Policy shall be made in a manner that complies with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

5. Severability

If any provision of this Policy or the application of any provision in this Policy to an individual shall be adjudicated to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions of this Policy, and the invalid, illegal, or unenforceable provisions shall be deemed amended to the minimum extent necessary to render any such provision or application enforceable.

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Approving Body:	Board of Directors
Date Approved by Board:	November 17, 2023
Date of Most Recent Previous Review and Approval:	
Policy Owner (Reviewer):	David Kwait
Date Last Reviewed by Policy Owner:	November 17, 2023

Revision History	
	Date of original adoption.

EXHIBIT A

Finward Bancorp
Compensation Recovery Policy Acknowledgment and Consent

Adopted by Board of Directors: November 17, 2023

I hereby agree and acknowledge that I am fully bound by, and subject to, all of the terms and conditions of the Finward Bancorp Compensation Recovery Policy (as may be amended, restated, supplemented, or otherwise modified from time to time, the "Policy"). In the event of any inconsistency between the Policy and the terms of any employment agreement to which I am a party, or the terms of any compensation plan, program, or agreement under which any compensation has been granted, awarded, earned, or paid, the terms of the Policy shall govern. In the event it is determined by the Committee that any amounts granted, awarded, earned, or paid to me must be recovered, forfeited, recouped, or reimbursed to the Company, I will promptly take any action necessary to effectuate such recovery, forfeiture, recoupment, or reimbursement. Any capitalized terms not otherwise defined herein shall have the meanings set forth in the Policy.

______________________________	______________________________
[Name]	Date
[Title]	

Compensation Recovery Policy Acknowledgment and Consent