Section 1: 10-Q (QUARTERLY REPORT ON FORM 10-Q FOR PERIOD ENDED SEPTEMBER 30, 2019)

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

FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **September 30, 2019**

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to ________

Commission file number: **333-230184**

RICHMOND MUTUAL BANCORPORATION, INC.
(Exact name of registrant as specified in its charter)

Maryland	**36-4926041**
(State or other jurisdiction of incorporation of organization)	(I.R.S. Employer Identification No.)

31 North 9th Street, Richmond, Indiana 47374
(Address of principal executive offices; Zip Code)

(765) 962-2581
(Registrant's telephone number, including area code)

None
(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	RMBI	The NASDAQ Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 and 15(d) of the Exchange Act 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 [X] 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 [X] 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	[X]	Smaller reporting company	[X]
Emerging growth company	[X]		

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

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

There were 13,526,625 shares of Registrant's common stock, par value of $0.01 per share, issued and outstanding as of November 14, 2019.

RICHMOND MUTUAL BANCORPORATION, INC. AND SUBSIDIARY

10-Q

TABLE OF CONTENTS

		Page Number
PART I	**FINANCIAL INFORMATION**	1
Item 1.	Financial Statements	1
	Condensed Consolidated Balance Sheets at September 30, 2019 (Unaudited) and December 31, 2018	1
	Condensed Consolidated Statements of Operation (Unaudited) for the Three and Nine Months Ended September 30, 2019 and 2018	2
	Condensed Consolidated Statements of Comprehensive Income (Unaudited) for the Three and Nine Months Ended September 30, 2019 and 2018	3
	Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited) for the Three and Nine Months Ended September 30, 2019 and 2018	4
	Condensed Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2019 and 2018	5
	Notes to Condensed Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	38
Item 4.	Controls and Procedures	38
PART II	**OTHER INFORMATION**	39
Item 1.	Legal Proceedings	39
Item 1A.	Risk Factors	39
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	39
Item 3.	Defaults Upon Senior Securities	39
Item 4.	Mine Safety Disclosures	39
Item 5	Other Information	39
Item 6.	Exhibits	40
SIGNATURES		41

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Richmond Mutual Bancorporation, Inc.
Condensed Consolidated Balance Sheets

Assets	**September 30, 2019**	**December 31, 2018**
	(Unaudited)	
Cash and due from banks	$ 10,513,957	$ 10,112,422
Interest-bearing demand deposits	30,863,289	4,858,748
Cash and cash equivalents	41,377,246	14,971,170
Investment securities - available for sale	168,289,560	122,482,487
Investment securities - held to maturity	16,729,471	21,079,974
Loans and leases, net of allowance for losses of $6,896,000 and $5,600,000, respectively	694,744,985	654,755,066
Premises and equipment, net	14,014,239	14,025,476
Federal Home Loan Bank stock	7,600,400	6,560,600
Interest receivable	2,800,042	2,686,010
Mortgage-servicing rights	1,214,660	1,227,356
Cash surrender value of life insurance	3,809,526	3,718,219
Other assets	5,639,888	8,112,005
Total assets	$ 956,220,017	$ 849,618,363
Liabilities		
Non-interest bearing deposits	$ 54,810,363	$ 58,044,369
Interest bearing deposits	552,997,714	562,592,451
Total deposits	607,808,077	620,636,820
Federal Home Loan Bank advances	141,000,000	136,100,000
Advances by borrowers for taxes and insurance	626,358	543,527
Interest payable	554,278	550,749
Other liabilities	5,877,399	5,934,235
Total liabilities	755,866,112	763,765,331
Commitments and Contingent Liabilities		
Stockholders' Equity		
Common stock, $.01 par value Authorized - 90,000,000 shares and 500 shares, respectively Issued and outstanding - 13,526,625 shares and 100 shares, respectively	135,266	1
Additional paid-in capital	132,590,923	12,750,999
Retained earnings	82,652,959	77,480,318
Unearned employee stock ownership plan (ESOP)	(14,584,215)	-
Accumulated other comprehensive loss	(441,028)	(4,378,286)
Total stockholders' equity	200,353,905	85,853,032
Total liabilities and stockholders' equity	$ 956,220,017	$ 849,618,363

See accompanying notes.

Richmond Mutual Bancorporation, Inc.
Condensed Consolidated Statements of Operation
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest Income				
Loans and leases	$ 9,318,054	$ 8,067,685	$ 27,247,406	$ 23,047,744
Investment securities	862,331	876,642	2,760,808	2,572,381
Other	626,705	27,120	954,274	109,412
Total interest income	10,807,090	8,971,447	30,962,488	25,729,537
Interest Expense				
Deposits	2,033,000	1,474,865	6,027,160	3,984,264
Borrowings	864,957	556,553	2,423,784	1,443,803
Total interest expense	2,897,957	2,031,418	8,450,944	5,428,067
Net Interest Income	7,909,133	6,940,029	22,511,544	20,301,470
Provision for losses on loans and leases	705,000	450,000	1,715,000	1,350,000
Net Interest Income After Provision for Losses on Loans and Leases	7,204,133	6,490,029	20,796,544	18,951,470
Other Income				
Service charges on deposit accounts	295,703	284,501	779,147	810,475
Card fee income	189,583	168,769	542,072	504,811
Loan and lease servicing fees	68,079	81,203	280,282	225,369
Net gains on securities (includes $21,827 and $0, $83,059 and $11,952, related to accumulated other comprehensive loss reclassifications)	21,827	-	83,059	11,952
Net gains on loan and lease sales	231,534	154,686	442,332	355,102
Other loan fees	211,249	103,302	454,283	333,597
Other income	129,121	213,806	370,281	505,420
Total other income	1,147,096	1,006,267	2,951,456	2,746,726
Other Expenses				
Salaries and employee benefits	3,840,806	3,417,559	12,632,760	10,269,584
Net occupancy expenses	275,535	256,422	825,480	812,066
Equipment expenses	250,173	224,790	725,818	681,412
Data processing fees	442,082	344,741	1,280,248	1,089,534
Deposit insurance expense	23,983	172,000	316,983	434,000
Printing and office supplies	45,099	28,265	114,119	106,744
Legal and professional fees	310,561	146,800	816,315	428,617
Advertising expense	197,799	122,807	494,475	358,375
Bank service charges	29,383	28,569	93,652	80,504
Real estate owned expense	7,481	10,297	44,874	29,015
Loss on sale of real estate owned	5,287	3,650	11,780	3,650
Donation to establish First Bank Richmond Charitable Foundation	6,250,000	-	6,250,000	-
Loan tax and insurance expense	81,061	5,980	130,788	103,010
Other expenses	740,514	719,627	2,171,469	2,072,981
Total other expenses	12,499,764	5,481,507	25,908,761	16,469,492
Income Before Income Tax Expense (Benefit)	(4,148,535)	2,014,789	(2,160,761)	5,228,704
Provision (benefit) for income taxes (includes $5,661 and $0, $21,543 and $3,124, related to income tax expense from reclassification of items)	(898,200)	394,700	(617,800)	1,021,300
Net Income (Loss)	$ (3,250,335)	$ 1,620,089	$ (1,542,961)	$ 4,207,404

Earnings (Loss) Per Share
Basic (for period July 2, 2019 to

September 30, 2019)	$	(0.26)	N/A	$	(0.26)	N/A
Diluted (for period July 2, 2019 to September 30, 2019)	$	(0.26)	N/A	$	(0.26)	N/A

See accompanying notes.

Richmond Mutual Bancorporation, Inc.
Condensed Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net Income (Loss)	$ (3,250,335)	$ 1,620,089	$ (1,542,961)	$ 4,207,404
Other Comprehensive Income (Loss)				
Unrealized gain (loss) on available-for-sale securities, net of tax expense (benefit) of $175,173 and ($187,520), $1,400,357 and ($1,039,305).	500,236	(529,985)	3,998,774	(2,937,374)
Less: reclassification adjustment for realized gains included in net income, net of tax expense of $5,661 and $0, $21,544 and $3,124.	16,166	-	61,516	8,828
	484,070	(529,985)	3,937,258	(2,946,202)
Comprehensive Income (Loss)	$ (2,766,265)	$ 1,090,104	$ 2,394,297	$ 1,261,202

See accompanying notes.

Richmond Mutual Bancorporation, Inc.
Condensed Consolidated Statements of Changes in Stockholders' Equity
(Unaudited)

	Preferred Stock		Common Stock		Additional		Unearned	Accumulated Other	
	Shares Outstanding	Amount	Shares Outstanding	Amount	Paid-in Capital	Retained Earnings	ESOP Shares	Comprehensive Loss	Total
Balances, June 30, 2019	-	$ -	100	$ 1	$ 12,750,999	$ 79,187,692	$ -	$ (925,098)	$ 91,013,594
Net loss	-	-	-	-	-	(3,250,335)	-	-	(3,250,335)
Other comprehensive income	-	-	-	-	-	-	-	484,070	484,070
ESOP shares earned	-	-	-	-	(751)	-	122,100	-	121,349
Issuance of common stock, net of offering costs	-	-	13,026,625	130,266	127,596,674	-	(14,706,315)	-	113,020,625
Stock contributed to charitble foundation	-	-	500,000	5,000	4,995,000	-	-	-	5,000,000
Reorganization of Richmond Mutual Bancorporation	-	-	(100)	(1)	(12,750,999)	6,715,602	-	-	(6,035,398)
Balances, September 30, 2019	-	$ -	13,526,625	$ 135,266	$ 132,590,923	$ 82,652,959	$ (14,584,215)	$ (441,028)	$ 200,353,905

	Preferred Stock		Common Stock		Additional		Unearned	Accumulated Other	
	Shares Outstanding	Amount	Shares Outstanding	Amount	Paid-in Capital	Retained Earnings	ESOP Shares	Comprehensive Loss	Total
Balances, December 31, 2018	-	$ -	100	$ 1	$ 12,750,999	$ 77,480,318	$ -	$ (4,378,286)	$ 85,853,032
Net loss	-	-	-	-	-	(1,542,961)	-	-	(1,542,961)
Other comprehensive income	-	-	-	-	-	-	-	3,937,258	3,937,258
ESOP shares earned	-	-	-	-	(751)	-	122,100	-	121,349
Issuance of common stock, net of offering costs	-	-	13,026,625	130,266	127,596,674	-	(14,706,315)	-	113,020,625
Stock contributed to charitble foundation	-	-	500,000	5,000	4,995,000	-	-	-	5,000,000
Reorganization of Richmond Mutual Bancorporation	-	-	(100)	(1)	(12,750,999)	6,715,602	-	-	(6,035,398)
Balances, September 30, 2019	-	$ -	13,526,625	$ 135,266	$ 132,590,923	$ 82,652,959	$ (14,584,215)	$ (441,028)	$ 200,353,905

	Preferred Stock		Common Stock		Additional		Unearned	Accumulated Other	
	Shares Outstanding	Amount	Shares Outstanding	Amount	Paid-in Capital	Retained Earnings	ESOP Shares	Comprehensive Loss	Total
Balances, June 30, 2018	80	$ 1	100	$ 1	$ 12,757,998	$ 73,852,992	$ -	$ (5,142,071)	$ 81,468,921
Net income	-	-	-	-	-	1,620,089	-	-	1,620,089
Other comprehensive loss	-	-	-	-	-	-	-	(529,985)	(529,985)
Balances, September 30, 2018	80	$ 1	100	$ 1	$ 12,757,998	$ 75,473,081	$ -	$ (5,672,056)	$ 82,559,025

	Preferred Stock		Common Stock		Additional		Unearned	Accumulated Other	
	Shares Outstanding	Amount	Shares Outstanding	Amount	Paid-in Capital	Retained Earnings	ESOP Shares	Comprehensive Loss	Total

Balances, December 31, 2017	80	$ 1	100	$ 1	$ 12,757,998	$ 71,765,677	$ -	$ (2,725,854)	$ 81,797,823
Net income	-	-	-	-	-	4,207,404	-	-	4,207,404
Dividend	-	-	-	-	-	(500,000)	-	-	(500,000)
Other comprehensive loss	-	-	-	-	-	-	-	(2,946,202)	(2,946,202)
Balances, September 30, 2018	80	$ 1	100	$ 1	$ 12,757,998	$ 75,473,081	$ -	$ (5,672,056)	$ 82,559,025

See accompanying notes.

Richmond Mutual Bancorporation, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2019	**2018**
Operating Activities		
Net income (loss)	$ (1,542,961)	$ 4,207,404
Items not requiring (providing) cash		
Provision for loan losses	1,715,000	1,350,000
Depreciation and amortization	681,666	673,750
Deferred income tax	(792,858)	(894,493)
Investment securities (accretion) amortization, net	678,412	679,567
Investment securities gains	(83,059)	(11,952)
Gain on sale of loans and leases held for sale	(442,332)	(355,102)
Loss on sale of real estate owned	11,780	3,650
Accretion of loan origination fees	(141,547)	(141,348)
Amortization of mortgage-servicing rights	144,522	181,201
Common stock contributed to Foundation	5,000,000	-
ESOP shares expense	121,349	-
Increase in cash surrender value of life insurance	(91,306)	(90,224)
Loans originated for sale	(17,573,565)	(16,630,173)
Proceeds on loans sold	18,314,415	16,513,423
Net change in		
Interest receivable	(114,032)	(266,667)
Other assets	(173,475)	2,412,544
Other liabilities	1,203,832	(1,219,402)
Interest payable	3,529	267,610
Net cash provided by operating activities	6,919,370	6,679,788
Investing Activities		
Net change in interest-bearing time deposits	-	200,000
Purchases of securities available for sale	(109,895,626)	(15,784,501)
Proceeds from maturities and paydowns of securities available for sale	11,047,791	7,826,755
Proceeds from sales of securities available for sale	57,703,608	1,507,529
Proceeds from maturities and paydowns of securities held to maturity	4,314,977	2,874,972
Net change in loans	(42,036,916)	(67,271,809)
Proceeds from sales of real estate owned	95,644	30,550
Purchases of premises and equipment	(670,429)	(1,015,326)
Purchase of FHLB stock	(1,039,800)	-
Net cash used in investing activities	(80,480,751)	(71,631,830)
Financing Activities		
Net change in		
Demand and savings deposits	8,739,009	(2,018,056)
Certificates of deposit	(21,567,752)	34,428,965
Advances by borrowers for taxes and insurance	82,831	42,313
Proceeds from FHLB advances	71,000,000	255,400,000
Repayment of FHLB advances	(66,100,000)	(228,900,000)
Repayment of other borrowings	(5,207,256)	-
Proceeds from stock conversion	113,020,625	-
Dividends paid	-	(500,000)
Net cash provided by financing activities	99,967,457	58,453,222
Net Change in Cash and Cash Equivalents	26,406,076	(6,498,820)
Cash and Cash Equivalents, Beginning of Period	14,971,170	16,169,754
Cash and Cash Equivalents, End of Period	$ 41,377,246	$ 9,670,934
Additional Cash Flows and Supplementary Information		
Interest paid	$ 8,447,415	$ 5,160,457
Transfers from loans to other real estate owned	5,400	71,458

See accompanying notes.

Note 1: Basis of Presentation

In 1998, First Bank Richmond's mutual predecessor reorganized into the mutual holding company form of organization by forming First Mutual of Richmond, Inc. ("First Mutual of Richmond-MHC"), a mutual holding company that had no stockholders and was controlled by its members. First Mutual of Richmond-MHC owned 100% of the outstanding shares of common stock of Richmond Mutual Bancorporation-Delaware ("RMB-Delaware"). RMB-Delaware owned 100% of the outstanding shares of common stock of First Bank Richmond.

On July 1, 2019, pursuant to the terms of our plan of reorganization and stock offering, First Mutual of Richmond-MHC converted from a mutual holding company to the stock holding company corporate structure. Upon the completion of the transaction, First Mutual of Richmond-MHC and RMB-Delaware ceased to exist, and First Bank Richmond became a wholly-owned subsidiary of Richmond Mutual Bancorporation, Inc., a newly formed Maryland corporation (the "Company").

The reorganization of First Mutual of Richmond-MHC to a stock holding company and dissolution of First Mutual of Richmond-MHC was treated as a transfer as assets and liabilities under common control and accounted for prospectively on July 1, 2019, the date of reorganization and stock offering, resulting in the acquisition of First Bank Richmond by the Company and the dissolution of RMB-Delaware. The net assets and liabilities transferred of $6,035,398 resulted in a deemed distribution as part of the reorganization which is included in the condensed consolidated statement of changes in stockholders' equity for the three and nine months ended September 30, 2019.

Simultaneously with the reorganization and stock offering, the common stock and additional paid in capital of RMB-Delaware totaling $12,751,000 was reclassified to retained earnings. The dissolution of First Mutual of Richmond-MHC included a repayment of trust preferred securities of $5,207,000 using the net proceeds from the stock offering which is included in the financing activities of the condensed consolidated statement of cash flows for the nine months ended September 30, 2019. All of the outstanding common stock of First Bank Richmond is owned by Richmond Mutual Bancorporation-Maryland, and all of the outstanding common stock of Richmond Mutual Bancorporation-Maryland is owned by public shareholders.

The costs of corporate reorganization and the issuance of common stock have been deducted from the sales proceeds of the offering.

In conjunction with the corporate reorganization, the Company contributed 500,000 shares and $1.25 million of cash to a newly formed charitable foundation, First Bank Richmond, Inc. Community Foundation (the "Foundation").

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include information or note disclosures necessary for a complete presentation of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. Accordingly, these financial statements should be read in conjunction with the consolidated financial statements and notes thereto for RMB-Delaware's year ended December 31, 2018 included in the prospectus filed with the Securities and Exchange Commission ("SEC") pursuant to Rule 424(b) of the Securities Act of 1933, as amended, on May 16, 2019 (SEC File No. 333-230184). However, in the opinion of management, all adjustments which are necessary for a fair presentation of the consolidated financial statements have been included. Those adjustments consist only of normal recurring adjustments.

The interim consolidated financial statements at September 30, 2019 and for the three and nine months ended September 30, 2019 and 2018, have not been audited by independent accountants, but in the opinion of management, reflect all adjustments necessary to present fairly the financial position, results of operations and cash flows for such periods. The results of operations for the period are not necessarily indicative of the results to be expected for the full year.

The Consolidated Balance Sheet of RMB-Delaware as of December 31, 2018 has been derived from the audited Consolidated Balance Sheet of RMB-Delaware as of that date.

In certain circumstances, where appropriate, the terms "we", "us" and "our" refer collectively to (i) RMB-Delaware and First Bank Richmond with respect to discussions in this document involving matters occurring prior to completion of the corporate reorganization and (ii) the Company and First Bank Richmond with respect to discussions in this document involving matters to occur post-corporate reorganization, in each case unless the context indicates another meaning.

Note 2: Accounting Pronouncements

Richmond Mutual Bancorporation - Maryland is an emerging growth company and as such will be subject to the effective dates noted for the private companies if they differ from the effective dates noted for public companies.

Revenue Recognition — Accounting Standards Codification 606, "Revenue from Contracts with Customers" (ASC 606) provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance enumerates five steps that entities should follow in achieving this core principle. Revenue generated from financial instruments, including loans and investment securities, are not included in the scope of ASC 606. The Company elected early adoption of ASC 606 in 2018. The adoption of ASC 606 did not result in a change to the accounting of any of the Company's revenue streams that are within the scope of the amendments. Revenue-gathering activities that are within the scope of ASC 606 and that are presented as non-interest income in the Company's consolidated statements of income include:

- Service charges on deposit accounts – these include general service fees charged for deposit account maintenance and activity and transaction-based fees charged for certain services, such as debit card, wire transfer and overdraft activities. Revenue is recognized when the performance obligation is completed, which is generally after a transaction is completed or monthly for account maintenance services.

- Card fee income – this includes debit card fees charged based on the volume and number of debit card transactions. Revenue is recognized when the performance obligation is completed, which is generally after a transaction is completed or monthly for account maintenance services.

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments-Credit Losses (Topic 326)*. The ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better form their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. In May 2019, the FASB issued ASU No. 2019-05, *"Financial Instruments-Credit Losses (Topic 326): Targeted Transition Relief"* (ASU 2019-05). This ASU provides transition relief for entities adopting the FASB's credit losses standard, ASU 2016-13 and allows companies to irrevocably elect, upon adoption of ASU 2016-13, the fair value option for certain financial instruments. In April 2019, the FASB issued ASU No. 2019-04, *"Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments"* (ASU 2019-04). This ASU clarifies certain aspects of accounting for credit losses, hedging activities, and financial instruments. The amendments in these ASUs are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022, assuming the adoption of an ASU implementing the FASB board decision in October 2019 extending the adoption date for certain registrants, including the Company, with early adoption permitted. The Company is evaluating its current expected loss methodology on the loan and investment portfolios to identify the necessary modifications in accordance with this standard. The Company has not quantified the impact of these ASUs.

The FASB has issued ASU No. 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize the following for all leases, with the exception of short-term leases, at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. For the Company, the amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2019. Based on leases outstanding as of December 31, 2018, the new standard will not have a material impact on the Company's balance sheet or income statement.

In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842), Targeted Improvements*, which provide entities with an additional (and optional) transition method to adopt the new lease standard. Under this new transition method, an entity initially applies the new lease standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current GAAP (Topic 842, Leases). The amendments in ASU 2018-11 also provide lessors with a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component and, instead, to account for those components as a single component if the nonlease components otherwise would be accounted for under the new revenue guidance (Topic 606) and certain criteria are met.

Note 3: Investment Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities are as follows:

	September 30, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. treasury securities	$ 5,000	$ 3	$ 8	$ 4,995
SBA Pools	11,975	-	79	11,896
Federal agencies	26,193	-	64	26,129
State and municipal obligations	33,654	339	102	33,891
Mortgage-backed securities - government-sponsored enterprises (GSE) residential	92,050	141	825	91,366
Equity securities	13	-	-	13
	168,885	483	1,078	168,290
Held to maturity				
State and municipal obligations	16,729	236	8	16,957
	16,729	236	8	16,957
Total investment securities	$ 185,614	$ 719	$ 1,086	$ 185,247

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
Federal agencies	$ 40,812	$ -	$ 2,802	$ 38,010
State and municipal obligations	30,531	34	776	29,789
Mortgage-backed securities - government-sponsored enterprises GSE residential	56,945	11	2,286	54,670
Equity securities	13	-	-	13
	128,301	45	5,864	122,482
Held to maturity				
State and municipal obligations	18,580	70	107	18,543
Corporate obligations	2,500	2,610	-	5,110
	21,080	2,680	107	23,653
Total investment securities	$ 149,381	$ 2,725	$ 5,971	$ 146,135

The amortized cost and fair value of securities at September 30, 2019, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	$ 308	$ 309	$ 3,214	$ 3,218
One to five years	17,785	17,807	8,587	8,678
Five to ten years	35,995	35,953	3,589	3,676
After ten years	22,734	22,842	1,339	1,385
	76,822	76,911	16,729	16,957
Mortgage-backed securities - GSE residential	92,050	91,366	-	-
Equity securities	13	13	-	-
Totals	$ 168,885	$ 168,290	$ 16,729	$ 16,957

Securities with a carrying value of $69,475,000 and $86,267,000 were pledged at September 30, 2019 and December 31, 2018, respectively, to secure certain deposits and for other purposes as permitted or required by law.

Proceeds from sales of securities available for sale for the three and nine months ended September 30, 2019 were $35,246,933 and $57,703,608, respectively. For the three and nine months ended September 30, 2018, proceeds from sales of securities available for sale were $0 and $1,507,529, respectively. Gross gains were recognized on the sale of securities available for sale for the three and nine months ended September 30, 2019 of $104,000 and $170,000, respectively. Gross gains were recognized on the sale of securities available for sale for the three and nine months ended September 30, 2018 of $0 and $12,000, respectively. Gross losses were recognized on the sale of securities available for sale for the three and nine months ended September 30, 2019 of $82,000 and $87,000, respectively. There were no gross losses realized from sales of securities available for sale for the three and nine months ended September 30, 2018.

Certain investments in debt securities are reported in the consolidated financial statements and notes at an amount less than their historical cost. Total fair value of these investments at September 30, 2019 and December 31, 2018 was $109,059,000 and $126,736,000, which is approximately 58% and 88%, respectively, of the Company's available-for-sale and held-to-maturity investment portfolio. These declines primarily resulted from changes in market interest rates since their purchase.

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary.
Should the impairment of any other securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

The following tables show the Company's investments by gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2019 and December 31, 2018:

	September 30, 2019					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale						
U.S. treasury securities	$ 3,002	$ 8	$ -	$ -	$ 3,002	$ 8
SBA Pools	11,820	79	-	-	11,820	79
Federal agencies	5,948	45	2,980	19	8,928	64
State and municipal obligations	3,264	22	8,642	80	11,906	102
Mortgage-backed securities - GSE residential	31,644	173	39,517	652	71,161	825
Total available-for-sale	55,678	327	51,139	751	106,817	1,078
Held-to-maturity						
State and municipal obligations	664	7	1,578	1	2,242	8
Total temporarily impaired securities	$ 56,342	$ 334	$ 52,717	$ 752	$ 109,059	$ 1,086

	December 31, 2018					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale						
Federal agencies	$ -	$ -	$ 38,010	$ 2,802	$ 38,010	$ 2,802
State and municipal obligations	4,516	26	21,529	750	26,045	776
Mortgage-backed securities - GSE residential	5,872	30	45,676	2,256	51,548	2,286
Total available-for-sale	10,388	56	105,215	5,808	115,603	5,864
Held-to-maturity						
State and municipal obligations	3,271	11	7,862	96	11,133	107
Total temporarily impaired securities	$ 13,659	$ 67	$ 113,077	$ 5,904	$ 126,736	$ 5,971

Federal Agencies and U.S. Treasury Securities. The unrealized losses on the Company's investments in direct obligations of U.S. federal agencies and treasury securities were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2019.

SBA Pools and Mortgage-Backed Securities - GSE Residential. The unrealized losses on the Company's investment in SBA pools and mortgage-backed securities were caused by interest rate changes and illiquidity. The Company expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2019.

State and Municipal Obligations. The unrealized losses on the Company's investments in securities of state and municipal obligations were caused by interest rate changes and illiquidity. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2019.

Note 4: Loans, Leases and Allowance

Categories of loans at September 30, 2019 and December 31, 2018 include:

	September 30, 2019	December 31, 2018
Commercial mortgage	$ 233,643	$ 211,237
Commercial and industrial	81,109	71,854
Construction and development	55,362	72,955
Multi-family	70,613	43,816
Residential mortgage	132,628	132,492
Home equity	7,385	7,214
Direct financing leases	107,349	107,735
Consumer	14,009	13,520
	702,098	660,823
Less		
Allowance for loan and lease losses	6,896	5,600
Deferred loan fees	457	468
	$ 694,745	$ 654,755

The following tables present the activity in the allowance for loan losses for three and nine months ended September 30, 2019 and 2018.

	Commercial Mortgage	Commercial and Industrial	Residential Mortgage	Leases	Consumer	Total
Three Months Ended September 30, 2019:						
Balance, beginning of period	$ 3,892	$ 1,768	$ 122	$ 385	$ 114	$ 6,281
Provision (credit) for losses	586	11	(34)	71	71	705
Charge-offs	(14)	-	(6)	(107)	(51)	(178)
Recoveries	4	2	22	54	6	88
Balance, end of period	$ 4,468	$ 1,781	$ 104	$ 403	$ 140	$ 6,896
Nine Months Ended September 30, 2019:						
Balance, beginning of period	$ 3,147	$ 1,817	$ 139	$ 389	$ 108	$ 5,600
Provision (credit) for losses	1,321	206	(41)	121	108	1,715
Charge-offs	(14)	(250)	(42)	(284)	(100)	(690)
Recoveries	14	8	48	177	24	271
Balance, end of period	$ 4,468	$ 1,781	$ 104	$ 403	$ 140	$ 6,896

	Commercial Mortgage	Commercial and Industrial	Residential Mortgage	Leases	Consumer	Total
Three Months Ended September 30, 2018:						
Balance, beginning of period	$ 3,157	$ 1,854	$ 173	$ 344	$ 105	$ 5,633
Provision (credit) for losses	(231)	594	(27)	106	8	450
Charge-offs	-	(400)	(40)	(122)	(9)	(571)
Recoveries	22	5	43	41	5	116
Balance, end of period	$ 2,948	$ 2,053	$ 149	$ 369	$ 109	$ 5,628
Nine Months Ended September 30, 2018:						
Balance, beginning of period	$ 2,424	$ 1,663	$ 257	$ 337	$ 119	$ 4,800
Provision (credit) for losses	496	815	(146)	181	4	1,350
Charge-offs	(7)	(447)	(89)	(316)	(39)	(898)
Recoveries	35	22	127	167	25	376
Balance, end of period	$ 2,948	$ 2,053	$ 149	$ 369	$ 109	$ 5,628

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of September 30, 2019 and December 31, 2018:

	September 30, 2019					
	Commercial Mortgage	Commercial and Industrial	Residential Mortgage	Leases	Consumer	Total
Allowance for loan losses:						
Individually evaluated for impairment	$ 300	$ 142	$ -	$ -	$ -	$ 442
Collectively evaluated for impairment	4,168	1,639	104	403	140	6,454
Balance, September 30	$ 4,468	$ 1,781	$ 104	$ 403	$ 140	$ 6,896
Loans:						
Individually evaluated for impairment	$ 675	$ 847	$ 356	$ -	$ -	$ 1,878
Collectively evaluated for impairment	383,946	74,028	116,347	107,349	18,550	700,220
Ending balance: September 30	$ 384,621	$ 74,875	$ 116,703	$ 107,349	$ 18,550	$ 702,098

	December 31, 2018					
	Commercial Mortgage	Commercial and Industrial	Residential Mortgage	Leases	Consumer	Total
Allowance for loan losses:						
Individually evaluated for impairment	$ 300	$ 394	$ -	$ -	$ -	$ 694
Collectively evaluated for impairment	2,847	1,423	139	389	108	4,906
Balance, December 31	$ 3,147	$ 1,817	$ 139	$ 389	$ 108	$ 5,600
Loans:						
Individually evaluated for impairment	$ 743	$ 1,177	$ 389	$ -	$ -	$ 2,309
Collectively evaluated for impairment	358,593	58,203	117,258	107,735	16,725	658,514
Ending balance: December 31	$ 359,336	$ 59,380	$ 117,647	$ 107,735	$ 16,725	$ 660,823

The Company rates all loans by credit quality using the following designations:

Grade 1 - Exceptional

Exceptional loans are top-quality loans to individuals whose financial credentials are well known to the Company. These loans have excellent sources of repayment, are well documented and/or virtually free of risk (i.e., CD secured loans).

Grade 2 - Quality Loans

These loans have excellent sources of repayment with no identifiable risk of collection, and they conform in all respects to Company policy and Indiana Department of Financial Institutions (“IDFI”) and Federal Deposit Insurance Corporation (“FDIC”) regulations. Documentation exceptions are minimal or are in the process of being corrected and are not of a type that could subsequently expose the Company to risk of loss.

Grade 3 - Acceptable Loans

This category is for “average” quality loans. These loans have adequate sources of repayment with little identifiable risk of collection and they conform to Company policy and IDFI/FDIC regulations.

Grade 4 - Acceptable but Monitored

Loans in this category may have a greater than average risk due to financial weakness or uncertainty but do not appear to require classification as special mention or substandard loans. Loans rated “4” need to be monitored on a regular basis to ascertain that the reasons for placing them in this category do not advance or worsen.

Grade 5 - Special Mention

Loans in this category have potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Company’s credit position at some future date. Special Mention loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification. This special mention rating is designed to identify a specific level of risk and concern about an asset’s quality. Although a special mention loan has a higher probability of default than a pass rated loan, its default is not imminent.

Grade 6 - Substandard

Loans in this category are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Substandard loans have a high probability of payment default, or they have other well-defined weaknesses. Such loans have a distinct potential for loss; however, an individual loan's potential for loss does not have to be distinct for the loan to be rated substandard.

The following are examples of situations that might cause a loan to be graded a "6":

- Cash flow deficiencies (losses) jeopardize future loan payments.
- Sale of noncollateral assets has become a primary source of loan repayment.
- The relationship has deteriorated to the point that sale of collateral is now the Company's primary source of repayment, unless this was the original source of loan repayment.
- The borrower is bankrupt or for any other reason future repayment is dependent on court action.

Grade 7 - Doubtful

A loan classified as doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current existing facts, conditions, and values, highly questionable and improbable. A doubtful loan has a high probability of total or substantial loss. Doubtful borrowers are usually in default, lack adequate liquidity or capital, and lack the resources necessary to remain an operating entity. Because of high probability of loss, nonaccrual accounting treatment will be required for doubtful loans.

Grade 8 - Loss

Loans classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off the loan even though partial recovery may be affected in the future.

The risk characteristics of each loan portfolio segment are as follows:

Commercial and Industrial

Commercial and industrial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and may include a personal guarantee. Short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Commercial Mortgage including Construction

Loans in this segment include commercial loans, commercial construction loans, and multi-family loans. This segment also includes loans secured by 1-4 family residences which were made for investment purposes. Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The characteristics of properties securing the Company's commercial real estate portfolio are diverse, but with geographic location almost entirely in the Company's market area. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. In general, the Company avoids financing single purpose projects unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate versus nonowner-occupied loans.

Construction loans are underwritten utilizing feasibility studies, independent appraisal reviews and financial analysis of the developers and property owners. Construction loans are generally based on estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan

commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

Residential, Brokered and Consumer

Residential, brokered and consumer loans consist of three segments - residential mortgage loans, brokered mortgage loans and personal loans. For residential mortgage loans that are secured by 1-4 family residences and are generally owner-occupied, the Company generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Brokered mortgages are purchased residential mortgage loans meeting the Company's criteria established for originating residential mortgage loans. Home equity loans are typically secured by a subordinate interest in 1-4 family residences, and consumer personal loans are secured by consumer personal assets, such as automobiles or recreational vehicles. Some consumer personal loans are unsecured, such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas, such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Leases

Lease financing consists of direct financing leases and are used by commercial customers to finance capital purchases of equipment. The credit decisions for these transactions are based upon an assessment of the overall financial capacity of the applicant. A determination is made as to the applicant’s financial condition and ability to repay in accordance with the proposed terms as well as an overall assessment of the risks involved.

The following tables present the credit risk profile of the Company’s loan portfolio based on rating category and payment activity as of September 30, 2019 and December 31, 2018:

		September 30, 2019								
		Commercial Mortgage	Commercial and Industrial	Construction and Development	Multi-Family	Residential Mortgage	Home Equity	Leases	Consumer	Total
1-4	Pass	$ 224,089	$ 71,696	$ 55,362	$ 70,613	$ 129,555	$ 7,259	$ 107,182	$ 13,991	$ 679,747
5	Special Mention	8,008	6,269	-	-	195	64	-	-	14,536
6	Substandard	1,546	3,144	-	-	2,878	62	65	18	7,713
7	Doubtful	-	-	-	-	-	-	102	-	102
8	Loss	-	-	-	-	-	-	-	-	-
		$ 233,643	$ 81,109	$ 55,362	$ 70,613	$ 132,628	$ 7,385	$ 107,349	$ 14,009	$ 702,098

		December 31, 2018								
		Commercial Mortgage	Commercial and Industrial	Construction and Development	Multi-Family	Residential Mortgage	Home Equity	Leases	Consumer	Total
1-4	Pass	$ 210,158	$ 68,568	$ 72,955	$ 40,890	$ 128,665	$ 7,059	$ 107,382	$ 13,467	$ 649,144
5	Special Mention	492	35	-	2,926	264	65	-	-	3,782
6	Substandard	587	3,251	-	-	3,563	90	151	53	7,695
7	Doubtful	-	-	-	-	-	-	202	-	202
8	Loss	-	-	-	-	-	-	-	-	-
		$ 211,237	$ 71,854	$ 72,955	$ 43,816	$ 132,492	$ 7,214	$ 107,735	$ 13,520	$ 660,823

The following tables present the Company's loan portfolio aging analysis of the recorded investment in loans as of September 30, 2019 and December 31, 2018:

September 30, 2019	Delinquent Loans						
	30-59 Days Past Due	60-89 Days Past Due	90 Days and Over	Total Past Due	Current	Total Portfolio Loans	Total Loans > 90 Days Accruing
Commercial mortgage	$ 155	$ 321	$ 184	$ 660	$ 232,983	$ 233,643	$ -
Commercial and industrial	557	-	787	1,344	79,765	81,109	-
Construction and development	-	232	-	232	55,130	55,362	-
Multi-family	-	-	-	-	70,613	70,613	-
Residential mortgage	617	622	2,388	3,627	129,001	132,628	2,151
Home equity	67	-	15	82	7,303	7,385	15
Leases	10	54	8	72	107,277	107,349	-
Consumer	66	22	18	106	13,903	14,009	18
Totals	$ 1,472	$ 1,251	$ 3,400	$ 6,123	$ 695,975	$ 702,098	$ 2,184

December 31, 2018	Delinquent Loans						
	30-59 Days Past Due	60-89 Days Past Due	90 Days and Over	Total Past Due	Current	Total Portfolio Loans	Total Loans > 90 Days Accruing
Commercial mortgage	$ -	$ 412	$ 78	$ 490	$ 210,747	$ 211,237	$ -
Commercial and industrial	321	328	1,243	1,892	69,962	71,854	130
Construction and development	-	-	-	-	72,955	72,955	-
Multi-family	1,684	-	-	1,684	42,132	43,816	-
Residential mortgage	1,147	807	2,193	4,147	128,345	132,492	1,913
Home equity	99	-	15	114	7,100	7,214	15
Leases	110	89	-	199	107,536	107,735	-
Consumer	67	24	38	129	13,391	13,520	38
Totals	$ 3,428	$ 1,660	$ 3,567	$ 8,655	$ 652,168	$ 660,823	$ 2,096

The following tables present the Company's impaired loans and specific valuation allowance at September 30, 2019 and December 31, 2018:

	September 30, 2019		
	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans without a specific valuation allowance			
Commercial mortgage	$ 353	$ 426	$ -
Commercial and industrial	654	2,437	-
Residential mortgage	356	617	-
	$ 1,363	$ 3,480	$ -
Loans with a specific valuation allowance			
Commercial mortgage	$ 322	$ 377	$ 300
Commercial and industrial	193	859	142
	$ 515	$ 1,236	$ 442
Total impaired loans			
Commercial mortgage	$ 675	$ 803	$ 300
Commercial and industrial	847	3,296	142
Residential mortgage	356	617	-
Total impaired loans	$ 1,878	$ 4,716	$ 442

	December 31, 2018		
	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans without a specific valuation allowance			
Commercial mortgage	$ 397	$ 453	$ -
Commercial and industrial	485	829	-
Residential mortgage	389	688	-
	$ 1,271	$ 1,970	$ -
Loans with a specific valuation allowance			
Commercial mortgage	$ 346	$ 387	$ 300
Commercial and industrial	692	2,495	394
	$ 1,038	$ 2,882	$ 694
Total impaired loans			
Commercial mortgage	$ 743	$ 840	$ 300
Commercial and industrial	1,177	3,324	394
Residential mortgage	389	688	-
Total impaired loans	$ 2,309	$ 4,852	$ 694

The following tables present the Company’s average investment in impaired loans and interest income recognized for the three and nine months ended September 30, 2019 and 2018.

		Average Investment in Impaired Loans		Interest Income Recognized
Three Months Ended September 30, 2019:				
Total impaired loans				
Commercial mortgage	$	684	$	10
Commercial and industrial		858		11
Residential mortgage		363		6
Total impaired loans	$	1,905	$	27
Nine Months Ended September 30, 2019:				
Total impaired loans				
Commercial mortgage	$	706	$	32
Commercial and industrial		950		51
Residential mortgage		375		14
Total impaired loans	$	2,031	$	97

		Average Investment in Impaired Loans		Interest Income Recognized
Three Months Ended September 30, 2018:				
Total impaired loans				
Commercial mortgage	$	397	$	13
Commercial and industrial		2,345		26
Residential mortgage		324		2
Total impaired loans	$	3,066	$	41
Nine Months Ended September 30, 2018:				
Total impaired loans				
Commercial mortgage	$	395	$	25
Commercial and industrial		2,472		54
Residential mortgage		329		10
Total impaired loans	$	3,196	$	89

The following table presents the Company's nonaccrual loans at September 30, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018
Commercial mortgage	$ 674	$ 743
Commercial and industrial	848	1,177
Residential mortgage	324	357
Leases	102	202
	$ 1,948	$ 2,479

During the nine months ended September 30, 2019 and 2018, there were no newly classified troubled debt restructured loans.

At September 30, 2019 and December 31, 2018, the balance of real estate owned includes $109,000 and $176,000, respectively, of foreclosed residential real estate properties recorded as a result of obtaining physical possession of the property. At September 30, 2019 and December 31, 2018, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceeds were in process was $251,000 and $342,000, respectively.

The following lists the components of the net investment in direct financing leases:

	September 30, 2019	December 31, 2018
Total minimum lease payments to be received	$ 118,269	$ 118,752
Initial direct costs	5,314	5,459
	123,583	124,211
Less: Unearned income	(16,234)	(16,476)
Net investment in direct financing leases	$ 107,349	$ 107,735

The amount of leases serviced by First Bank Richmond for the benefit of others was approximately $1.5 million and $2.8 million at September 30, 2019 and December 31, 2018, respectively. Additionally, certain leases have been sold with partial recourse. First Bank Richmond estimates and records its obligation based upon historical loss percentages. At September 30, 2019 and December 31, 2018, First Bank Richmond has recorded a recourse obligation on leases sold with recourse of $0, and has a maximum exposure of $851,000 and $875,000, respectively, for these leases.

The following table summarizes the future minimum lease payments receivable subsequent to September 30, 2019:

2019	$ 12,577
2020	42,946
2021	31,556
2022	19,196
2023	9,361
Thereafter	2,633
	$ 118,269

Note 5: Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 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 for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2019 and December 31, 2018:

		Fair Value Measurements Using		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
September 30, 2019				
Available-for-sale securities				
U.S. Treasury securities	$ 4,995	$ -	$ 4,995	$ -
SBA Pools	11,896	-	11,896	-
Federal agencies	26,129	-	26,129	-
State and municipal obligations	33,891	-	33,891	-
Mortgage-backed securities -GSE residential	91,366	-	91,366	-
Equity securities	13	13	-	-
	$ 168,290	$ 13	$ 168,277	$ -

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018				
Available-for-sale securities				
Federal agencies	$ 38,010	$ -	$ 38,010	$ -
State and municipal obligations	29,789	-	29,789	-
Mortgage-backed securities -GSE residential	54,670	-	54,670	-
Equity securities	13	13	-	-
	$ 122,482	$ 13	$ 122,469	$ -

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the three and nine months ended September 30, 2019.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy, which includes equity securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include agency securities, obligations of state and political subdivisions, and mortgage-backed securities. Matrix pricing is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities but rather relying on the investment securities' relationship to other benchmark quoted investment securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Nonrecurring Measurements

The following table presents the fair value measurement of assets and liabilities measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2019 and December 31, 2018:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2019				
Impaired loans, collateral dependent	$ 257	$ -	$ -	$ 257
December 31, 2018				
Impaired loans, collateral dependent	$ 344	$ -	$ -	$ 344
Mortgage-servicing rights	1,227	-	-	1,227

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Collateral-Dependent Impaired Loans, Net of ALLL

The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by management. Appraisals are reviewed for accuracy and consistency by management. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by management by comparison to historical results.

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral for collateral-dependent loans.

Mortgage-Servicing Rights

Mortgage-servicing rights do not trade in an active, open market with readily observable prices. Accordingly, fair value is estimated using discounted cash flow models having significant inputs of discount rate, prepayment speed and default rate. Due to the nature of the valuation inputs, mortgage-servicing rights are classified within Level 3 of the hierarchy.

Mortgage-servicing rights are tested for impairment on a quarterly basis based on an independent valuation. The valuation is reviewed by management for accuracy and for potential impairment.

Unobservable (Level 3) Inputs

The following tables present the fair value measurement of assets recognized in the accompanying consolidated balance sheets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2019 and December 31, 2018:

	Fair Value at September 30, 2019	Valuation Technique	Unobservable Inputs	Range
Collateral-dependent impaired loans	$ 257	Appraisal	Marketability discount	0% - 14%

	Fair Value at December 31, 2018	Valuation Technique	Unobservable Inputs	Range
Collateral-dependent impaired loans	$ 344	Appraisal	Marketability discount	0% - 70%
Mortgage-servicing rights	$ 1,227	Discounted cash flow	Discount rate Prepayment Speed	10% 1% - 56%

Fair Value of Financial Instruments

The following tables present estimated fair values of the Company's financial instruments at September 30, 2019 and December 31, 2018.

	Carrying Value	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2019				
Financial assets				
Cash and cash equivalents	$ 41,377	$ 41,377	$ -	$ -
Available-for-sale securities	168,290	13	168,277	-
Held-to-maturity securities	16,729	-	16,957	-
Loans and leases receivable, net	694,745	-	-	689,087
Federal Reserve and FHLB stock	7,600	-	7,600	-
Interest receivable	2,800	-	2,800	-
Financial liabilities				
Deposits	607,808	-	609,754	-
FHLB advances	141,000	-	140,495	-
Interest payable	554	-	554	-

	Carrying Value	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018				
Financial assets				
Cash and cash equivalents	$ 14,971	$ 14,971	$ -	$ -
Available-for-sale securities	122,482	13	122,469	-
Held-to-maturity securities	21,080	-	23,653	-
Loans and leases receivable, net	654,755	-	-	643,572
Federal Reserve and FHLB stock	6,561	-	6,561	-
Interest receivable	2,686	-	2,686	-
Financial liabilities				
Deposits	620,637	-	620,380	-
FHLB advances	136,100	-	133,141	-
Interest payable	551	-	551	-

Note 6: Earnings per Share

Basic EPS is computed by dividing net income allocated to common stock by the weighted average number of common shares outstanding during the period which excludes the participating securities. Diluted EPS includes the dilutive effect of additional potential common shares from stock compensation awards, but excludes awards considered participating securities. ESOP shares are not considered outstanding for EPS until they are earned. The following table presents the computation of basic and diluted EPS for the periods indicated (in thousands, except for share and per share data):

		For the Period July 2, 2019 to September 30, 2019
Net income (loss)	$	(3,250,335)
Shares outstanding for Basic EPS:		
Average shares outstanding		13,526,625
Less: average unearned ESOP Shares		1,052,804
Shares outstanding for Basic EPS		12,473,821
Additional Dilutive Shares		-
Shares outstanding for Diluted EPS		12,473,821
Basic Earnings (Loss) Per Share	$	(0.26)
Diluted Earnings (Loss) Per Share	$	(0.26)

Note 7: Employee Stock Ownership Plan

As part of the reorganization and related stock offering, the Company established an Employee Stock Ownership Plan (ESOP) covering substantially all employees. The ESOP acquired 1,082,130 shares of Company common stock at an average of $13.59 per share on the open market with funds provided by a loan from the Company. Accordingly, $14,706,000 of common stock acquired by the ESOP was shown as a reduction of stockholders' equity. Shares are released to participants proportionately as the loan is repaid.

ESOP expense for the three months ended September 30, 2019 was $121,000.

		September 30, 2019
Earned ESOP shares		9,018
Unearned ESOP shares		1,073,112
Total ESOP shares		1,082,130
Quoted per share price	$	13.99
Fair value of earned shares	$	126,162
Fair value of unearned shares	$	15,012,837

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

Management’s discussion and analysis of financial condition and results of operations at September 30, 2019 and for the three and nine months ended September 30, 2019 and 2018 is intended to assist in understanding our financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the unaudited financial statements and the notes thereto appearing in Part I, Item 1, of this Form 10-Q.

Cautionary Note Regarding Forward-Looking Statements

Certain matters in this Form 10-Q may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not statements of historical fact, are based on certain assumptions and are generally identified by use of words such as “believes,” “expects,” “anticipates,” “estimates,” “forecasts,” “intends,” “plans,” “targets,” “potentially,” “probably,” “projects,” “outlook” or similar expressions or future or conditional verbs such as “may,” “will,” “should,” “would,” and “could.” These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date made. These forward-looking statements are based on our current beliefs and expectations and, by their nature, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

Important factors that could cause our actual results to differ materially from the results anticipated or projected, include, but are not limited to, the following:

- general economic conditions, either nationally or in our market areas, that are worse than expected;
- changes in the level and direction of loan or lease delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan and lease losses;
- our ability to access cost-effective funding;
- fluctuations in real estate values and both residential and commercial real estate market conditions;
- risks associated with the relatively unseasoned nature of a significant portion of our loan portfolio;
- demand for loans and deposits in our market area;
- our ability to implement and change our business strategies;
- competition among depository and other financial institutions and equipment financing companies;
- The impact of the termination of our defined benefit plan;
- the deductibility of our contribution to the charitable foundation for tax purposes;
- inflation and changes in the interest rate environment that reduce our margins and yields, our mortgage banking revenues, the fair value of financial instruments or our level of loan originations, or increase the level of defaults, losses and prepayments on loans and leases we have made and make;

- adverse changes in the securities or secondary mortgage markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements, including as a result of Basel III;
- the impact of the Dodd–Frank Wall Street Reform and Consumer Protection Act and the implementing regulations;
- changes in the quality or composition of our loan, lease or investment portfolios;
- technological changes that may be more difficult or expensive than expected;
- the inability of third-party providers to perform as expected;
- our ability to manage market risk, credit risk and operational risk in the current economic environment;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate into our operations any assets, liabilities, customers, systems and management personnel we may acquire and our ability to realize related revenue synergies and cost savings within expected time frames, and any goodwill charges related thereto;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;
- our ability to retain key employees;
- our compensation expense associated with equity allocated or awarded to our employees;
- changes in the financial condition, results of operations or future prospects of issuers of securities that we own.

We undertake no obligation to publicly update or revise any forward-looking statements included in this report or to update the reasons why actual results could differ from those contained in such statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking statements discussed in this report might not occur and you should not put undue reliance on any forward-looking statements.

Additional factors that may affect our results are discussed in the Prospectus under the heading “Risk Factors.”

Overview

On February 6, 2019, the Board of Directors of First Mutual of Richmond, Inc. (the “MHC”), the parent mutual holding company of Richmond Mutual Bancorporation-Delaware, adopted a Plan of Reorganization and Stock Offering (the “Plan”). The Plan was approved by the Board of Governors of the Federal Reserve System (the “FRB”) and by the Indiana Department of Financial Institutions (the “IDFI”), as well as the voting members of the MHC at a special meeting of members held on June 19, 2019. Pursuant to the Plan, upon completion of the transaction, the MHC would convert from a mutual holding company to the stock holding company corporate structure, the MHC and Richmond Mutual Bancorporation-Delaware would cease to exist, and First Bank Richmond would become a wholly owned subsidiary of Richmond Mutual Bancorporation-Maryland, a newly formed Maryland corporation. The transaction was completed on July 1, 2019. In connection with the related stock offering, which was also completed on July 1, 2019, Richmond Mutual Bancorporation-Maryland sold 13,026,625 shares of common stock at $10.00 per share, for gross offering proceeds of approximately $130.3 million in its subscription offering and contributed 500,000 shares and $1.25 million to a newly formed charitable foundation, First Bank Richmond, Inc. Community Foundation (the “Foundation”).

The Company is regulated by the FRB and the IDFI. Our corporate office is located at 31 North 9th Street, Richmond, Indiana, and our telephone number is (765) 962-2581**.**

First Bank Richmond is an Indiana state-chartered commercial bank headquartered in Richmond, Indiana. The bank was originally established in 1887 as an Indiana state-chartered mutual savings and loan association and in 1935 converted to a federal mutual savings and loan association, operating under the name First Federal Savings and Loan Association of Richmond. In 1993, the bank converted to a state-chartered mutual savings bank and changed its name to First Bank Richmond, S.B. In 1998, the bank, in connection with its non-stock mutual holding company reorganization, converted to a national bank charter operating as First Bank Richmond, National Association. In July 2007, Richmond Mutual Bancorporation-Delaware, the bank’s current holding company, acquired Mutual Federal Savings Bank headquartered in Sidney, Ohio. Mutual Federal Savings Bank was operated independently as a separately chartered, wholly owned subsidiary of Richmond Mutual Bancorporation-Delaware until 2016 when it was combined with the bank through an internal merger transaction that consolidated both banks into a single, more efficient commercial bank charter. In 2017, the bank converted to an Indiana state-chartered commercial bank and changed its name to First Bank Richmond. Mutual Federal Savings Bank continues to operate in Ohio under the name Mutual Federal, a division of First Bank Richmond.

First Bank Richmond provides full banking services through its seven full- and one limited-service offices located in Cambridge City (1), Centerville (1), Richmond (5) and Shelbyville (1), Indiana, its five full service offices located in Piqua (2), Sidney (2) and Troy (1), Ohio, and its loan production office in Columbus, Ohio. Administrative, trust and wealth management services are conducted through First Bank Richmond’s Corporate Office/Financial Center located in Richmond, Indiana. As an Indiana-chartered commercial bank, First Bank Richmond is subject to regulation by the IDFI and the Federal Deposit Insurance Corporation (“FDIC”).

Our principal business consists of attracting deposits from the general public, as well as brokered deposits, and investing those funds primarily in loans secured by commercial and multi-family real estate, first mortgages on owner-occupied, one- to four-family residences, a variety of consumer loans, direct financing leases and commercial and industrial loans. We also obtain funds by utilizing Federal Home Loan Bank (“FHLB”) advances. Funds not invested in loans generally are invested in investment securities, including mortgage-backed and mortgage-related securities and agency and municipal bonds.

First Bank Richmond generates commercial, mortgage and consumer loans and leases and receives deposits from customers located primarily in Wayne and Shelby Counties, in Indiana and Shelby, Miami and Franklin (no deposits) Counties, in Ohio. We sometimes refer to these counties as our primary market area. First Bank Richmond’s loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Our leasing operation consists of direct investments in equipment that we lease (referred to as direct finance leases) to small businesses located throughout the United States. Our lease portfolio consists of various kinds of equipment, generally technology-related, such as computer systems, medical equipment and general manufacturing, industrial, construction and transportation equipment. We seek leasing transactions where we believe the equipment leased is integral to the lessee's business. We also provide trust and wealth management services, including serving as executor and trustee under wills and deeds and as guardian and custodian of employee benefits, and manage private investment accounts for individuals and institutions. Total wealth management assets under management and administration were $138.2 million at September 30, 2019.

Our results of operations are primarily dependent on net interest income. Net interest income is the difference between interest income, which is the income that is earned on loans and investments, and interest expense, which is the interest that is paid on deposits and borrowings. Other significant sources of pre-tax income are service charges (mostly from service charges on deposit accounts and loan servicing fees), and fees from sale of residential mortgage loans originated for sale in the secondary market. We also recognize income from the sale of investment securities.

At September 30, 2019, on a consolidated basis, we had $956.2 million in assets, $694.7 million in loans and leases, net of allowance, $607.8 million in deposits and $200.4 million in stockholders' equity. At September 30, 2019, First Bank Richmond's total risk-based capital ratio was 21.5%, exceeding the 10.0% requirement for a well-capitalized institution. For the three and nine months ended September 30, 2019, we incurred a net loss of $3.3 million and $1.5 million, compared with net income of $1.6 million and $4.2 million for the three and nine months ended September 30, 2018, respectively. Our earnings for the three months ended September 31, 2019 were impacted by a one-time $6.25 million contribution to our Foundation created as part of our reorganization to a public company. Our earnings for the nine months ended September 31, 2019 were impacted by the $6.25 million contribution to the Foundation discussed in the previous sentence as well as the adoption of a nonqualified deferred compensation plan in the second quarter of 2019 at a cost of $1.7 million.

As we discussed in the Prospectus relating to our initial public offering, we are evaluating options to terminate participation in our multiemployer defined benefit pension plan, which will require us to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability, which we previously estimated to be approximately $9.8 million after tax. Our actual termination expense may be higher or lower than our previous estimate depending on a number of factors, including but not limited to the interest rate environment and the valuation of plan assets as of the date of termination.

Critical Accounting Policies

Certain accounting policies are important to the portrayal of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Management believes that its critical accounting policies include determining the allowance for loan and lease losses, the valuation of foreclosed assets, mortgage servicing rights, valuation of intangible assets and securities, deferred tax asset and income tax accounting.

Allowance for Loan and Lease Losses. We maintain an allowance for loan and lease losses to cover probable incurred credit losses at the balance sheet date. Loan and lease losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in our judgment, should be charged-off. A provision for loan and lease losses is charged to operations based on our periodic evaluation of the necessary allowance balance.

We have an established process to determine the adequacy of the allowance for loan and lease losses. The determination of the allowance is inherently subjective, as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on other classified loans and pools of homogeneous loans, and consideration of past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors, all of which may be susceptible to significant change.

Foreclosed Assets. Foreclosed assets are carried at the lower of cost or fair value less estimated selling costs. Management estimates the fair value of the properties based on current appraisal information. Fair value estimates are particularly susceptible to significant changes in the economic environment, market conditions, and real estate market. A worsening or protracted economic decline would increase the likelihood of a decline in property values and could create the need to write down the properties through current operations.

Mortgage Servicing Rights ("MSRs"). MSRs associated with loans originated and sold, where servicing is retained, are capitalized and included in the consolidated balance sheet. The value of the capitalized servicing rights represents the fair value of the right to service loans in the portfolio. Critical accounting policies for MSRs relate to the initial valuation and subsequent impairment tests. The methodology used to determine the valuation of MSRs requires the development and use of a number of estimates, including anticipated principal amortization and prepayments of that principal balance. Events that may significantly affect the estimates used are changes in interest rates, mortgage loan prepayment speeds and the payment performance of the underlying loans. The carrying value of the MSRs is periodically reviewed for impairment based on a determination of fair value. For purposes of measuring impairment, the servicing rights are compared to a valuation prepared based on a discounted cash flow methodology, utilizing current prepayment speeds and discount rates. Impairment, if any, is recognized through a valuation allowance and is recorded as a reduction in loan servicing fee income.

Securities. Under Financial Accounting Standards Board ("FASB") Codification Topic 320 (ASC 320), Investments-Debt, investment securities must be classified as held to maturity, available for sale or trading. Management determines the appropriate classification at the time of purchase. The classification of securities is significant since it directly impacts the accounting for unrealized gains and losses on securities. Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and we have the ability to hold the securities to maturity. Securities not classified as held to maturity are classified as available for sale and are carried at fair value, with the unrealized holding gains and losses, net of tax, reported in other comprehensive income and which do not affect earnings until realized.

We evaluate all securities on a quarterly basis, and more frequently when economic conditions warrant additional evaluations, for determining if any other-than-temporary-impairments ("OTTI") exist pursuant to guidelines established in ASC 320. In evaluating the possible impairment of securities, consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and our ability and intent to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, we may consider whether the securities are issued by the federal government or its agencies or government sponsored agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

If management determines that an investment experienced an OTTI, we must then determine the amount of the OTTI to be recognized in earnings. If we do not intend to sell the security and it is more likely than not that we will not be required to sell the security before recovery of its amortized cost basis less any current period loss, the OTTI will be separated into the amount representing the credit loss and the amount related to all other factors. The amount of OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the OTTI related to other factors will be recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings will become the new amortized cost basis of the investment. If management intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current period credit loss, the OTTI will be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. Any recoveries related to the value of these securities are recorded as an unrealized gain (as accumulated other comprehensive income (loss) in stockholders' equity) and not recognized in income until the security is ultimately sold.

From time to time we may dispose of an impaired security in response to asset/liability management decisions, future market movements, business plan changes, or if the net proceeds can be reinvested at a rate of return that is expected to recover the loss within a reasonable period of time.

Deferred Tax Asset. We have evaluated our deferred tax asset to determine if it is more likely than not that the asset will be utilized in the future. Our most recent evaluation has determined that we will more likely than not be able to utilize our remaining deferred tax asset.

Income Tax Accounting. We file a consolidated federal income tax return. The provision for income taxes is based upon income in our consolidated financial statements, rather than amounts reported on our income tax return. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on our deferred tax assets and liabilities is recognized as income or expense in the period that includes the enactment date.

Comparison of Financial Condition at September 30, 2019 and December 31, 2018

General. Total assets increased $106.7 million, or 12.6%, to $956.3 million at September 30, 2019 from $849.6 million at December 31, 2018, driven by a $40.0 million, or 6.1%, increase in the loan and lease portfolio, net of allowance for loan and lease losses, a $41.5 million, or 28.9%, increase in investment securities and a $26.4 million, or 176.4%, increase in cash and cash equivalents. The increase in assets was funded with the proceeds received by the Company in connection with the initial public offering. Most of the growth in the loan portfolio occurred in the commercial real estate and multi-family portfolios.

Loans and Leases. Our loan and lease portfolio, net of allowance for loan and lease losses, increased $40.0 million, or 6.1%, to $694.7 million at September 30, 2019 from $654.8 million at December 31, 2018. The majority of the growth occurred in the commercial real estate and multi-family loan portfolios, which in the aggregate increased $49.2 million, or 19.3%. We also experienced a $9.3 million, or 12.9%, increase in our commercial and industrial loan portfolio. These increases were partially offset by a $17.6 million, or 24.1%, decrease in our construction and development loan portfolio due to customers obtaining long term fixed rate loans from alternate sources.

Allowance for Loan and Lease Losses. The allowance for loan and lease losses increased $1.3 million, or 23.1%, to $6.9 million at September 30, 2019 from $5.6 million at December 31, 2018, primarily as a result of increased commercial real estate and multi-family loan activity. At September 30, 2019, the allowance for loan and lease losses totaled 0.98% of total loans and leases outstanding compared to 0.85% at December 31, 2018. Net charge-offs during the first nine months of 2019 were $419,000, or 0.08% of average loans and leases outstanding compared to $521,000, or 0.09% of average loans and leases outstanding during the first nine months of 2018.

Deposits. Total deposits decreased $12.8 million, or 2.1%, to $607.8 million at September 30, 2019 from $620.6 million at December 31, 2018. This decrease in deposits primarily was due to customer's using their funds on deposit with First Bank Richmond to purchase stock in the Company's initial public offering. Brokered deposits decreased $58.6 million during the first nine months of 2019. At September 30, 2019, brokered deposits totaled $65.9 million, or 10.8 % of total deposits, compared to $124.5 million, or 15.0% of total deposits at December 31, 2018. This decrease was partially offset by an increase in retail certificates of deposit of $39.8 million from December 31, 2018 to September 30, 2019.

Borrowings. Total borrowings, consisting solely of FHLB advances, increased $4.9 million, or 3.6%, to $141.0 million at September 30, 2019 from $136.1 million at December 31, 2018. The increase in borrowings, along with deposit growth, primarily was used to fund loan growth during the period.

Stockholders' Equity. Stockholders' equity totaled $200.4 million at September 30, 2019, an increase of $114.5 million from December 31, 2018. The increase in stockholders' equity was the result of the completion of the Company's initial public offering and a $4.0 million reduction in accumulated other comprehensive loss, partially offset by a net loss of $1.5 million. First Bank Richmond's tangible common equity ratio and its risk-based capital ratios exceeded "well-capitalized" levels as defined by all regulatory standards as of September 30, 2019.

Comparison of Results of Operations for the Three Months Ended September 30, 2019 and 2018.

General. Net loss for the three months ended September 30, 2019 was $3.3 million, a $4.9 million decrease from net income of $1.6 million for the three months ended September 30, 2018. The decrease was driven by a $4.9 million after-tax expense reflecting the contribution to the Foundation. This resulted in a basic and diluted loss per share of $0.26 for the quarter ended September 30, 2019. The one-time expenses associated with the Foundation reduced basic and diluted earnings per share by $0.40 per share.

Interest Income. Interest income increased $1.8 million, or 20.0%, to $10.8 million for the three months ended September 30, 2019 compared to $9.0 million for the same three month period in 2018. The increase was primarily attributable to a $75.7 million increase in the average balance of loans and leases outstanding and a 15 basis point increase in the yield on loans and leases for the three months ended September 30, 2019, compared to the three months ended September 30, 2018, which resulted in a $1.3 million increase in interest income. The average balance of securities increased $19.7 million for the three months ended September 30, 2019 compared to the three months ended September 30, 2018, and the average yield decreased 41 basis points, which resulted in a $50,000 decrease in interest income. The average balance of "Other", primarily funds with the Federal Reserve Bank, increased $84.3 million for the three months ended September 30, 2019 compared to the three months ended September 30, 2018 due to funds received by the Company in its initial public offering, with the average yield on such funds increasing 78 basis points, resulting in a $600,000 increase in interest income.

Interest Expense. Interest expense increased $900,000, or 45.0%, to $2.9 million for the three months ended September 30, 2019 compared to $2.0 million during the same period in 2018. The increase primarily was attributable to the higher average balance of FHLB advances in the third quarter of 2019 compared to the second quarter of 2018, as well as higher overall rates on certificates of deposit and FHLB advances. The average balance of FHLB advances in the third quarter of 2019 increased $32.1 million over the average balance during the three months ended September 30, 2018. The average rates paid on certificates of deposit and FHLB advances during the three months ended September 30, 2019 increased 50 basis points and 42 basis points, respectively, over the rates paid during the comparable period in 2018. Higher average balances of and rates paid on savings and money market accounts and interest-bearing checking accounts also contributed to the overall increase in interest expense during the three months ended September 30, 2019, compared to the same period in 2018.

Net Interest Income. Net interest income before the provision for loan and lease losses increased $969,00, or 14.0%, to $7.9 million during the third quarter of 2019 compared to $6.9 million for the third quarter of 2018. The increase was due to an increase in interest-earning assets during the three months ended September 30, 2019 compared to the comparable period in 2018. We experienced a 28 basis point decline in the net interest margin in the third quarter of 2019 to 3.31% compared to 3.59% for the third quarter of 2018.

Average Balances, Interest and Average Yields/Cost. The following tables set forth for the periods indicated, information regarding average balances of assets and liabilities as well as the total dollar amounts of interest income from average interest-earning assets and interest expense on average interest-bearing liabilities, resultant yields, interest rate spread, net interest margin (otherwise known as net yield on interest-earning assets), and the ratio of average interest-earning assets to average interest-bearing liabilities. Average balances have been calculated using quarterly balances. Non-accruing loans have been included in the table as loans carrying a zero yield. Loan fees are included in interest income on loans and are not material.

	Three Months Ended September 30,					
	2019			2018		
	Average Balance Outstanding	Interest Earned/ Paid	Yield/ Rate	Average Balance Outstanding	Interest Earned/ Paid	Yield/ Rate
	(Dollars in thousands)					
Interest-earning assets:						
Loans and leases receivable	$ 698,924	$ 9,318	5.33%	$ 623,232	$ 8,068	5.18%
Securities	158,701	750	1.89%	138,964	800	2.30%
Federal Reserve and FHLB stock	7,580	112	5.91%	6,716	77	4.59%
Other	89,550	627	2.80%	5,349	27	2.02%
Total interest-earning assets	954,755	10,807	4.53%	774,261	8,972	4.64%
Interest-bearing liabilities:						
Savings and money market accounts	163,660	286	0.70%	154,720	208	0.54%
Interest-bearing checking accounts	104,951	115	0.44%	100,558	51	0.20%
Certificate accounts	297,848	1,632	2.19%	287,065	1,216	1.69%
Borrowings	147,302	865	2.35%	115,164	557	1.93%
Total interest-bearing liabilities	713,761	2,898	1.62%	657,507	2,032	1.24%
Net interest income		$ 7,909			$ 6,940	
Net earning assets	$ 240,994			$ 116,754		
Net interest rate spread[(1)]			2.91%			3.40%
Net interest margin[(2)]			3.31%			3.59%
Average interest-earning assets to average interest-bearing liabilities	133.76%			117.76%		

———————————————

(1) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average rate of interest-bearing liabilities.

(2) Net interest margin represents net interest income divided by average total interest-earning assets.

Provision for Loan and Lease Losses. We establish provisions for loan losses, which are charged to earnings, based on our review of the level of the allowance for loan and lease losses required to reflect management's best estimate of the probable incurred credit losses in the loan and lease portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan and lease portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Because of uncertainties associated with regional economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that management's estimate of probable credit losses inherent in the loan and lease portfolio and the related allowance may change materially in the near-term. The allowance is increased by a provision for loan and lease losses, which is charged to expense and reduced by full and partial charge-offs, net of recoveries. Changes in the allowance relating to impaired loans and leases are charged or credited to the provision for loan and lease losses. Management's periodic evaluation of the adequacy of the allowance is based on various factors, including, but not limited to, management's ongoing review and grading of loans and leases, facts and issues related to specific loans and leases, historical loan and lease loss and delinquency experience, trends in past due and non-accrual loans and leases, existing risk characteristics of specific loans or loan pools, the fair value of underlying collateral, current economic conditions and other qualitative and quantitative factors which could affect potential credit losses.

The provision for loan and lease losses for the three months ended September 30, 2019 totaled $705,000 compared to $450,000 for the three months ended September 30, 2018, a $255,000 or 56.7% increase. The higher provision was due to the

overall increase in the size of the loan portfolio, primarily commercial real estate, commercial and industrial and multi-family loans, as well as a reflection of the overall slowing economy. Net charge-offs during the third quarter of 2019 were $90,000, compared to net charge-offs of $454,000 in the second quarter of 2018.

While we believe the estimates and assumptions used in our determination of the adequacy of the allowance are reasonable, there can be no assurance that such estimates and assumptions will not be proven incorrect in the future, or that the actual amount of future provisions will not exceed the amount of past provisions or that any increased provisions that may be required will not adversely impact our financial condition and results of operations. In addition, the determination of the amount of our allowance for loan and lease losses is subject to review by bank regulators as part of the routine examination process, which may result in the adjustment of reserves based upon their judgment of information available to them at the time of their examination.

Non-Interest Income. Non-interest income increased $141,000, or 14.0%, to $1.1 million for the three months ended September 30, 2019, compared to $1.0 million for the same period in 2018. A gain on sale of securities of $22,000 was recorded for the three months ended September 30, 2019, compared to no gain recognized in the same period in 2018. Gain on sale of loans and leases increased $77,000, or 49.7%, to $232,000 for the three months ended September 30, 2019 compared to $155,000 for the three months ended September 30, 2018 as a result of an increase in mortgage banking activity during the period. Other loan fees increased $108,000 during the third quarter of 2019 compared to the third quarter of 2018. Other income decreased $85,000, or 39.7%, to $129,000 for the three months ended September 30, 2019 compared to $214,000 for the three months ended September 30, 2018.

Non-Interest Expense. Noninterest expense increased $7.0 million to $12.5 million during the three months ended September 30, 2019, compared to the same period in 2018. Of the $7.0 million increase, $6.25 million was attributable to the contribution to the Foundation. Excluding the expense associated with the contribution to the Foundation, noninterest expense increased $769,000 in the third quarter of 2019 compared to the same period in 2018. Salaries and employee benefits increased $424,000, or 12.4%, in the third quarter of 2019 compared to the third quarter of 2018 due to merit increases and higher related benefits. The higher related benefits included a $135,000 increase in pension expense and a $121,000 increase related to our newly implemented Employee Stock Ownership Plan in the third quarter of 2019 compared to the same period in 2018. The defined benefit plan was frozen effective October 1, 2019 and we are currently evaluating options to terminate the plan which will reduce expenses associated with the pension plan in the future. Data processing fees increased $97,000 during the three months ended September 30, 2019 compared to September 30, 2018, primarily attributable to higher transaction volume and additional services utilized from the Company's IT provider. FDIC assessment expense decreased $148,000 in the third quarter of 2019 compared to the third quarter of 2018 as the Bank paid no deposit insurance assessment. This was the result of the Deposit Insurance Fund achieving a specified ratio of eligible deposits and banks with less than $10 billion in assets receiving credit for previous assessments paid. The Bank has $36,000 in small bank credits on future assessments remaining as of September 30, 2019, which may be recognized in future periods when allowed for by the FDIC upon insurance fund levels being maintained. Legal and professional fees increased $164,000 in the third quarter of 2019 compared to the same period in 2018 primarily as a result of our corporate reorganization and stock offering. Advertising expenses increased $75,000 for the three months ended September 30, 2019 compared to the three months ended September 30, 2018. Loan tax and insurance expense also increased $75,000 in the third quarter of 2019 compared to the same period in 2018.

Income Tax Expense. Income tax expense decreased by $1.3 million, to a benefit of $898,000 during the three months ended September 30, 2019, compared to the same period in 2018. This decrease was the result of the net loss recorded for the period due to the $6.25 million expense associated with the contribution to the Foundation.

Comparison of Results of Operations for the Nine Months Ended September 30, 2019 and 2018.

General. Net loss for the nine months ended September 30, 2019, was $1.5 million, compared to net income of $4.2 million for the nine months ended September 30, 2018. The decrease in the first nine months of 2019 compared to the same period of 2018 is due to the $6.25 million expense related to the contribution to the Foundation as well as the adoption of a nonqualified deferred compensation plan in the second quarter of 2019 at a cost of $1.7 million. Excluding these one time expenses associated, net income for the nine months ended September 30, 2019 would have increased by approximately $500,000.

Interest Income. Interest income increased $5.3 million, or 20.6%, to $31.0 million for the nine months ended September 30, 2019 compared to $25.7 million for the same nine month period in 2018. The increase was primarily attributable to a $79.3 million increase in the average balance of loans and leases outstanding and a 22 basis point increase in the yield on loans and leases for the nine months ended September 30, 2019, compared to the nine months ended September 30, 2018,

which resulted in a $4.2 million increase in interest income. The average balance of securities increased $11.8 million for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018, partially offset by a 4 basis point decrease in the average yield, which resulted in a $156,000 increase in interest income. The average balance of "Other", primarily funds with the Federal Reserve Bank, increased $47.5 million for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 due to the funds received by the Company in its initial public offering, with the average yield on such funds increasing 69 basis points, which resulted in a $845,000 increase in interest income.

Interest Expense. Interest expense increased $3.0 million, or 55.7 %, to $8.5 million for the nine months ended September 30, 2019 compared to $5.4 million during the same period in 2018. The increase primarily was attributable to the higher average balances of certificates of deposit and FHLB advances in the first nine months of 2019 compared to the first nine months of 2018, as well as higher overall rates on certificates of deposits and FHLB advances. The average balances of certificates of deposit and FHLB advances in the first nine months of 2019 increased $35.7 million and $35.3 million, respectively, over the average balances during the nine months ended September 30, 2018. The average rates paid on certificates of deposit and FHLB advances during the nine months ended September 30, 2019 increased 53 basis points and 47 basis points, respectively, over the rates paid during the comparable period in 2018. Higher average rates paid on savings and money market accounts and interest-bearing checking accounts also contributed to the overall increase in interest expense during the nine months ended September 30, 2019, compared to the same period in 2018

Net Interest Income. Net interest income before the provision for loan and lease losses increased $2.2 million, or 10.8%, to $22.5 million in the first nine months of 2019 compared to $20.3 million for the first nine months of 2018. The increase was due to an increase in net interest-earning assets during the nine months ended September 30, 2019 compared to the comparable period in 2018. We experienced a 23 basis point decline in the net interest margin in the first nine months of 2019 to 3.34% compared to 3.57% for the first nine months of 2018.

Average Balances, Interest and Average Yields/Cost. The following tables set forth for the periods indicated, information regarding average balances of assets and liabilities as well as the total dollar amounts of interest income from average interest-earning assets and interest expense on average interest-bearing liabilities, resultant yields, interest rate spread, net interest margin (otherwise known as net yield on interest-earning assets), and the ratio of average interest-earning assets to average interest-bearing liabilities. Average balances have been calculated using quarterly balances. Non-accruing loans have been included in the table as loans carrying a zero yield. Loan fees are included in interest income on loans and are not material.

	Nine Months Ended September 30,					
	2019			2018		
	Average Balance Outstanding	Interest Earned/ Paid	Yield/ Rate	Average Balance Outstanding	Interest Earned/ Paid	Yield/ Rate
	(Dollars in thousands)					
Interest-earning assets:						
Loans and leases receivable	$ 684,844	$ 27,247	5.30%	$ 605,475	$ 23,048	5.08%
Securities	149,064	2,465	2.20%	137,323	2,309	2.24%
Federal Reserve and FHLB stock	7,140	296	5.53%	6,716	263	5.22%
Other	56,949	954	2.23%	9,445	109	1.54%
Total interest-earning assets	897,997	30,962	4.60%	758,959	25,729	4.52%
Interest-bearing liabilities:						
Savings and money market accounts	168,800	914	0.72%	160,578	631	0.52%
Interest-bearing checking accounts	102,221	278	0.36%	101,198	153	0.20%
Certificate accounts	308,976	4,835	2.09%	273,310	3,200	1.56%
Borrowings	143,597	2,424	2.25%	108,290	1,444	1.78%
Total interest-bearing liabilities	723,594	8,451	1.56%	643,376	5,428	1.12%
Net interest income		$ 22,511			$ 20,301	
Net earning assets	$ 174,403			$ 115,583		
Net interest rate spread(1)			3.04%			3.40%
Net interest margin(2)			3.34%			3.57%
Average interest-earning assets to average interest-bearing liabilities	124.10%			117.97%		

(1) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average rate of interest-bearing liabilities.
(2) Net interest margin represents net interest income divided by average total interest-earning assets.

Provision for Loan and Lease Losses. The provision for loan and lease losses for the nine months ended September 30, 2019 totaled $1.7 million compared to $1.4 million for the nine months ended September 30, 2018, a $365,000 or 27.0% increase. The higher provision expense was due to the overall increase in the size of the loan portfolio, primarily commercial real estate, commercial and industrial and multi-family, as well as a reflection of the overall slowing economy. Net charge-offs during the first nine months of 2019 were $419,000, compared to charge-offs of $521,000 in the first nine months of 2018.

Non-Interest Income. Noninterest income increased $205,000, or 7.5%, to $3.0 million for the nine months ended September 30, 2019, compared to $2.7 million for the same period in 2018. The increase was primarily driven by other loan fees, gains on sale of securities and gain on sale of loans and leases increasing $278,000 in the aggregate over the nine months ended September 2018. These increases were partially offset by lower service charges on deposit accounts and other income, which decreased $166,000 compared to the first three quarters of 2018.

Non-Interest Expense. Noninterest expense increased $9.4 million, or 57.3%, to $25.9 million during the nine months ended September 30, 2019, compared to the same period in 2018, which included the $6.25 million charge attributable to the contribution to the Foundation and the $1.7 million charge related to the adoption of a nonqualified deferred compensation plan during the period. Excluding the expenses associated with these two non-recurring expenses, noninterest expense increased $1.5 million during the nine months ended September 30, 2019 compared to the same period in 2018. Salaries and employee benefits increased $2.4 million, or 23.0%, in the first nine months of 2019 compared to the first nine months of 2018, primarily due to the adoption of the nonqualified deferred compensation plan in the second quarter of 2019. Merit increases and higher related benefits accounted for the remainder of the increase. Excluding the nonqualified deferred compensation plan expense, salaries and employee benefits increased $662,000, or 6.4%, in the first nine months of 2019 compared to the same period in 2018. Data processing fees increased $191,000, while FDIC assessments decreased $117,000, or 27.0%, during the nine months ended September 30, 2019 compared to September 30, 2018. The increase in data processing fees was a result of higher transaction volume and services while the decrease in FDIC assessments was attributable to the credit received in the third quarter of 2019. Legal and professional fees also increased $388,000 in the first nine months of 2019 compared to the same period in 2018 for the reasons discussed above. Loan tax and insurance expense increased by $28,000 during the nine months ended September 30, 2019 compared to the same period in 2018 due to a recovery of $84,000 in property taxes in 2018.

Income Tax Expense. Income tax expense decreased by $1.6 million during the nine months ended September 30, 2019, compared to the same period in 2018. This decrease was due to pre-tax income decreasing by $7.4 million during the first nine months of 2019 compared to the first nine months of 2018 as a result of the expenses associated with the contribution to the Foundation in the third quarter of 2019 and the adoption of a nonqualified deferred compensation plan during the second quarter of 2019, as discussed above.

Liquidity

We are required to have enough cash and investments that qualify as liquid assets in order to maintain sufficient liquidity to ensure safe and sound operations. Liquidity may increase or decrease depending upon the availability of funds and comparative yields on investments in relation to the return on loans. Historically, liquid assets have been maintained above levels believed to be adequate to meet the requirements of normal operations, including potential deposit outflows. Cash flow projections are regularly reviewed and updated to assure that adequate liquidity is maintained.

Liquidity management involves the matching of cash flow requirements of customers, who may be either depositors desiring to withdraw funds or borrowers needing assurance that sufficient funds will be available to meet their credit needs and our ability to manage those requirements. We strive to maintain an adequate liquidity position by managing the balances and maturities of interest-earning assets and interest-bearing liabilities so that the balance in short-term investments at any given time will cover adequately any reasonably anticipated, immediate need for funds. Additionally, First Bank Richmond maintains a relationship with the FHLB of Indianapolis which could provide funds on short-term notice if needed.

Liquidity management is both a daily and long-term function of the management of our business. It is overseen by the Asset and Liability Management Committee. Excess liquidity is generally invested in short-term investments, such as overnight deposits and holding excess funds at the Federal Reserve Bank. On a long term basis, we maintain a strategy of investing in various lending products and investment securities, including mortgage-backed and municipal securities. First Bank Richmond uses its sources of funds primarily to meet its ongoing commitments, pay maturing deposits, fund deposit withdrawals and fund loan commitments.

First Bank Richmond can also generate funds from borrowings, primarily FHLB advances. In addition, we have historically sold eligible long-term, fixed-rate residential mortgage loans in the secondary market in order to reduce interest rate risk and to create another source of liquidity.

Liquidity, represented by cash, cash equivalents, and investment securities, is a product of our operating, investing and financing activities. Primary sources of funds are deposits, amortization, prepayments and maturities of outstanding loans and mortgage-backed securities, maturities of investment securities and other short-term investments and funds provided from operations. While scheduled payments from the amortization of loans and mortgage-backed securities and maturing investment securities and short-term investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. In addition, excess funds are invested in short-term interest-earning assets, which provide liquidity to meet lending requirements. Cash is also generated through borrowings. FHLB advances are utilized to leverage our capital base and provide funds for lending and investment activities, as well as to enhance interest rate risk management.

Funds are used primarily to meet ongoing commitments, pay maturing deposits, fund withdrawals, and to fund loan commitments. It is management's policy to offer deposit rates that are competitive with other local financial institutions. Based on this management strategy, we believe that a majority of maturing deposits will remain with us.

Except as set forth above, management is not aware of any trends, events, or uncertainties that will have, or that are reasonably likely to have a material impact on liquidity, capital resources or operations. Further, management is not aware of any current recommendations by regulatory agencies, which, if they were to be implemented, would have this effect.

Off-Balance Sheet Activities

In the normal course of operations, we engage in a variety of financial transactions that are not recorded in our financial statements, including commitments to extend credit and unused lines of credit. These transactions involve varying degrees of off-balance sheet risks. While these commitments are contractual obligations and represent our potential future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make. At September 30, 2019, we had $96.9 million in loan commitments and unused lines of credit.

Capital Resources

First Bank Richmond is subject to minimum capital requirements imposed by the FDIC. The FDIC may require us to have additional capital above the specific regulatory levels if it believes we are subject to increased risk due to asset problems, high interest rate risk and other risks. At September 30, 2019, First Bank Richmond's regulatory capital exceeded the FDIC regulatory requirements, and First Bank Richmond was well-capitalized under regulatory prompt corrective action standards. Consistent with our goals to operate a sound and profitable organization, our policy is for First Bank Richmond to maintain well-capitalized status.

	Actual Amount	Ratio	Required for Adequate Capital Amount	Ratio	To Be Well Capitalized Amount	Ratio
	(Dollars in thousands)					
At September 30, 2019						
Total risk-based capital (to risk weighted assets)	$ 161,392	21.5%	$ 59,972	8.0%	$ 74,964	10.0%
Tier 1 risk-based capital (to risk weighted assets)	154,496	20.6	44,979	6.0	59,972	8.0
Common equity tier 1 capital (to risk weighted assets)	154,496	20.6	33,734	4.5	48,727	6.5
Tier 1 leverage (core) capital (to adjusted tangible assets)	154,496	15.7	39,335	4.0	49,168	5.0
As of December 31, 2018						
Total risk-based capital (to risk weighted assets)	$ 89,850	12.3%	$ 58,640	8.0%	$ 73,300	10.0%
Tier 1 risk-based capital (to risk weighted assets)	84,250	11.5	43,980	6.0	58,640	8.0
Common equity tier 1 capital (to risk weighted assets)	84,250	11.5	32,985	4.5	47,645	6.5
Tier 1 leverage (core) capital (to adjusted tangible assets)	84,250	10.1	33,511	4.0	41,888	5.0

Pursuant to the capital regulations of the FDIC and the other federal banking agencies, First Bank Richmond must maintain a capital conservation buffer consisting of additional common equity tier 1 ("CET1") capital greater than 2.5% of risk-weighted assets above the required minimum levels of risk-based CET1 capital, tier 1 capital and total capital in order to avoid limitations on paying dividends, repurchasing shares, and paying discretionary bonuses. At September 30, 2019, the Bank's CET1 capital exceeded the required capital conservation buffer.

For a bank holding company with less than $3.0 billion in assets, the capital guidelines apply on a bank only basis and the FRB expects the holding company's subsidiary banks to be well capitalized under the prompt corrective action regulations. If Richmond Mutual Bancorporation-Delaware was subject to regulatory guidelines for bank holding companies with $3.0 billion or more in assets, at September 30, 2019, it would have exceeded all regulatory capital requirements.

Impact of Inflation

The effects of price changes and inflation can vary substantially for most financial institutions. While management believes that inflation affects the economic value of total assets, it believes that it is difficult to assess the overall impact. Management believes this to be the case due to the fact that generally neither the timing nor the magnitude of inflationary changes in the economy coincides with changes in interest rates. Since virtually all of our assets and liabilities are monetary in nature, interest rates generally have a more significant impact on our performance than does inflation.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

There has not been any material change in the market risk disclosures contained in our Prospectus.

ITEM 4. CONTROLS AND PROCEDURES

An evaluation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Act")) as of September 30, 2019, was carried out under the supervision and with the participation of our Chief Executive Officer, Chief Financial Officer and several other members of our senior management. Our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures in effect as of September 30, 2019, were effective. In addition, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Act) that occurred during the quarter ended September 30, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

We do not expect that our disclosure controls and procedures and internal control over financial reporting will prevent all errors and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls may be circumvented by the individual acts of some persons, by collusion of two or more people, or by override of the control. The design of any control procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not involved in any pending legal proceedings as a plaintiff or defendant other than routine legal proceedings occurring in the ordinary course of business, and at September 30, 2019, we were not involved in any legal proceedings, the outcome of which would be material to our financial condition or results of operations.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed under the heading “Risk Factors” contained in the Prospectus. Our evaluation of the risk factors applicable to us has not changed materially from those disclosed in the Prospectus.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The Company completed its initial public offering on July 1, 2019 through the sale of shares of its common stock, par value $0.01 per share, pursuant to a Registration Statement on Form S-1, as amended (Commission File No. 333- 230184), as declared effective on May 6, 2019. A total of 13,526,625 shares of common stock for an aggregate price of $135,266,250 were registered with the SEC. The Company sold 13,026,625 shares of common stock at $10.00 per share in its subscription offering for gross proceeds of approximately $130.3 million and issued 500,000 shares of common stock to First Bank Richmond, Inc. Community Foundation. Keefe, Bruyette & Wood, Inc. (“KBW”) acted as marketing agent for the offering. The net proceeds resulting from the offering after deducting all expenses related to the offering, including $1.5 million paid to KBW, were $127.7 million. Consistent with the disclosure in the Company’s prospectus dated May 6, 2019, we invested approximately $63.9 million of the net proceeds in First Bank Richmond, our wholly owned operating subsidiary, contributed $1.25 million to First Bank Richmond, Inc. Community Foundation and used approximately $5.2 million to redeem our outstanding subordinated debentures and related trust preferred securities. Our Employee Stock Ownership Plan (“ESOP”) was unable to purchase any shares in the offering as a result of an oversubscription in the offering. As a result, approximately $14.7 million of the net proceeds of the offering were used to fund a loan to our ESOP to purchase 1,082,130 shares of Company common stock in the aftermarket. The remaining net proceeds were invested in securities and cash and cash equivalents.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Nothing to report.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Nothing to report.

ITEM 6. EXHIBITS

2.0	Plan of Reorganization and Stock Offering of First Mutual of Richmond, Inc. (incorporated by reference to Exhibit 2.0 of the Company's Registration Statement on Form S-1 (Commission File No. 333-230184))
3.1	Charter of Richmond Mutual Bancorporation, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Registration Statement on Form S-1 (Commission File No. 333-230184))
3.2	Bylaws of Richmond Mutual Bancorporation, Inc. (incorporated by reference to Exhibit 3.2 of the Company's Registration Statement on Form S-1 (Commission File No. 333-230184))
4	Form of Common Stock Certificate of Richmond Mutual Bancorporation, Inc. (incorporated by reference to Exhibit 4.0 of the Company's Registration Statement on Form S-1 (Commission File No. 333-230184))
10.1	Form of Non-Qualified Deferred Compensation Plan for Garry Kleer (incorporated by reference to Exhibit 10.1 of the Company's Registration Statement on Form S-1 (Commission File No. 333-230184))
31.1	Rule 13a-14(a) Certifications (Chief Executive Officer)
31.2	Rule 13a-14(a) Certifications (Chief Financial Officer)
32.0	Section 1350 Certifications
101.0	The following materials for the quarter ended September 30, 2019, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Shareholders' Equity (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements

SIGNATURES

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

RICHMOND MUTUAL BANCORPORATION, INC.

Date: November 14, 2019	By:	/s/ Garry D. Kleer Garry D. Kleer Chairman, President and CEO *(Duly Authorized Officer)*
Date: November 14, 2019	By:	/s/ Donald A. Benziger Donald A. Benziger Executive Vice President and CFO *(Principal Financial and Accounting Officer)*

(Back To Top)

Section 2: EX-31.1 (RULE 13A-14(A) CERTIFICATIONS (CHIEF EXECUTIVE OFFICER))

EXHIBIT 31.1

RULE 13A-14(A) CERTIFICATION

I, Garry D. Kleer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Richmond Mutual Bancorporation, Inc. (the "Company");

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 Company as of, and for, the periods presented in this report;

4. The Company's other certifying officer(s) 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)) for the Company 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 Company, 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) [Paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];

   c) Evaluated the effectiveness of the Company'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 Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting to the Company's auditors and the audit committee of the Company'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 Company'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 Company's internal control over financial reporting.

Date: November 14, 2019

By: /s/ Garry D. Kleer
Garry D. Kleer
President and Chief Executive Officer

(Back To Top)

Section 3: EX-31.2 (RULE 13A-14(A) CERTIFICATIONS (CHIEF FINANCIAL OFFICER))

EXHIBIT 31.2

RULE 13A-14(A)CERTIFICATION

I, Donald A. Benziger, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Richmond Mutual Bancorporation, Inc. (the "Company");

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 Company as of, and for, the periods presented in this report;

4. The Company's other certifying officer(s) 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)) for the Company 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 Company, 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) [Paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];

c) Evaluated the effectiveness of the Company'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 Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting to the Company's auditors and the audit committee of the Company'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 Company'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 Company's internal control over financial reporting.

Date: November 14, 2019

By: /s/ Donald A. Benziger
Donald A. Benziger
Executive Vice President and Chief Financial Officer

(Back To Top)

Section 4: EX-32 (SECTION 1350 CERTIFICATIONS)

EXHIBIT 32

SECTION 1350 CERTIFICATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 each of the undersigned hereby certifies in his or her capacity as an officer of Richmond Mutual Bancorporation, Inc. (the "Company") that the Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2019, fully complies with the requirements of Section 13(a) of the Securities and Exchange Act of 1934, as amended, and that the information contained in such report fairly represents, in all material respects, the financial statements included in such report.

Date: November 14, 2019

/s/ Garry D. Kleer
Garry D. Kleer
President and Chief Executive Officer

Date: November 14, 2019

/s/ Donald A. Benziger
Donald A. Benziger
Executive Vice President and
Chief Financial Officer

(Back To Top)