



2008
ANNUAL REPORT

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President's Message
To Our Stockholders

On behalf of AMB Financial Corporation (the Company), and its wholly owned subsidiary, American Savings, FSB (the Bank), I present our 2008 annual financial report. Despite our nation's economic troubles, we are optimistic regarding the future of our organization.

The economic crisis spurred by decreased liquidity and declining market values has created one of the most challenging environments in decades. No one can say for certain how deep the current economic recession will cut into the United States economy. However, the Company has taken proactive steps to maintain our capital to position us to take advantage of future opportunities.

Despite the myriad of challenges facing the financial industry, including but not limited to a lack of loan demand in our market, our earnings base grew in 2008. Total assets increased \$5.3 million, to \$180.1 million during the fiscal year 2008. This increase in assets is primarily attributed to increases of \$2.8 million in loans receivable and \$2.7 million in mortgage-backed securities. This growth in assets was funded by strong deposit growth of \$10.3 million to \$129.2 million. As a result, we were able to reduce our borrowings from \$35.9 million at December 31, 2007 to \$30.9 million, at December 31, 2008.

Net income for the Company in 2008 declined from \$48,440 to a loss of \$280,365. These results were primarily caused by write-downs and losses on sale of real estate we hold for development. At the same time, as a result primarily of adverse economic conditions, we were required to significantly increase our annual provision to our allowance for loan losses. On the positive side, I note that, we were able to achieve a significant increase in our net interest income.

We were able to minimize the increase in our non-interest expense despite a substantial increase in federal deposit insurance premiums and expenses related to the opening of the Schererville branch. Non-interest expense increased only \$9,000 to \$4.6 million. During the fiscal year 2008, federal deposit insurance premiums increased by \$87,000, and the opening of the new branch office was the primary cause for the increases in advertising expenses of \$37,000 and occupancy expenses of \$111,000. As a result of our expense control plan, the Company was able to offset the increased expense items through reductions in staffing costs, data processing and professional fees.

As of December 31, 2008 the Bank, according to federal regulatory standards remains "well capitalized". Tier I (core) capital to adjusted total assets must be in excess of 5.00% to achieve a "well capitalized" designation, and at the end of the fiscal year 2008 the Bank maintained a ratio of 8.50%. Total capital to risk-weighted assets requires a 10% ratio to maintain "well capitalized" levels, and at the end of the fiscal year 2008 the Bank exceeded the risk-weighted "well capitalized" level with a ratio of 12.92%.

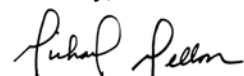
In early 2009, we raised \$3.7 million through the United States Treasury Department's Capital Purchase Program ("CPP"). In particular, on January 30, 2009 the Company sold to the United States Department of the Treasury 3,674 shares of Company Fixed Rate Cumulative Perpetual Preferred Stock, Series A, having a liquidation preference of \$1,000 per share, and a warrant to purchase up to 184 shares of Company Fixed Rate Cumulative Perpetual Preferred Stock, Series B, having a liquidation preference of \$1,000 per share through the CPP. While the Bank met the regulatory requirements for being well capitalized without participation in the CPP, the Company firmly believes that, absent knowing the extent and depth of the current economic recession, it was prudent to raise additional capital through the CPP.

2008 was a year of stiff challenges that negatively impacted the bottom line of the Company. Most of these challenges related to the national economy and were beyond our control. I am deeply disappointed with the 2008 results of the Company. At the same time, there are some positives found within the 2008 performance. Expense cutting measures have worked to hold the line on non-interest expense. Balance sheet restructuring has led to an increased interest rate spread of 2.60% in 2008 as compared to 2.31% in 2007. We are actively selling mortgages into the secondary market. This action should help control the interest rate risk of the loan portfolio.

Of course, we do not know what the next year will bring, and there is no way to predict the Country's economic future. However, we are confident of our ability to adapt and succeed in the future.

The entire staff of the Company and the Bank appreciates your commitment and support, and we look forward to a long and profitable relationship.

Sincerely,



Michael Mellon
President / CEO

SELECTED CONSOLIDATED FINANCIAL INFORMATION
(Dollars in thousands)

At December 31,

	2008	2007	2006	2005	2004
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SELECTED FINANCIAL DATA:

Total assets	180,092	174,754	182,282	170,466	157,094
Loans receivable, net	150,834	148,025	150,701	140,035	129,342
Investment securities and interest-bearing deposits	3,913	3,849	10,433	9,367	8,790
Mortgage-backed securities	3,609	858	1,252	1,664	2,286
Trading securities	-	307	339	329	515
Deposits	129,213	118,882	124,858	127,435	115,659
Borrowed funds	30,883	35,913	34,318	21,012	18,954
Guaranteed preferred beneficial interest in junior subordinated debt	3,000	3,000	5,000	5,000	5,000
Stockholders' equity	12,950	13,453	14,661	14,145	13,409

At or for the Year Ended December 31,

	2008	2007	2006	2005	2004
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SELECTED FINANCIAL RATIOS AND OTHER DATA:

Return on average assets	-0.16%	0.03%	0.37%	0.53%	0.58%
Return on average stockholders' equity	-2.12	0.34	4.48	6.20	6.78
Average stockholders' equity to average assets	7.36	8.01	8.28	8.54	8.56
Stockholders' equity to total assets	7.19	7.70	8.04	8.30	8.54
Interest rate spread during the period	2.60	2.31	2.69	3.02	3.24
Net interest margin	2.47	2.29	2.69	3.05	3.26
Operating expenses to average assets	2.59	2.61	2.63	2.86	2.81
Efficiency ratio (1)	101.17	97.42	82.52	80.22	75.42
Non-performing assets to total assets	3.76	1.91	2.06	1.24	1.02
Allowance for loan losses to non-performing loans	16.02	28.46	25.65	50.80	44.50
Allowance for loan losses to loans receivable, net (2)	0.56	0.50	0.45	0.53	0.55
Ratio of average interest-earning assets to average interest-bearing liabilities	.96x	.99x	1.00x	1.01x	1.01x
Number of full service offices	4	3	3	3	3

(1) Non-interest expense divided by net-interest income plus non-interest income except for gains and losses on investments available for sale and other assets.

(2) Loans include loans, net, excluding the allowance for loan losses.

SELECTED CONSOLIDATED FINANCIAL INFORMATION (cont.)

(Dollars in thousands except per share data)

For the Year Ended December 31,

2008	2007	2006	2005	2004
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SELECTED OPERATING DATA:

Total interest income	\$9,452	\$10,037	\$10,027	\$8,585	\$7,887
Total interest expense	<u>5,599</u>	<u>6,442</u>	<u>5,807</u>	<u>4,149</u>	<u>3,433</u>
Net interest income	3,853	3,595	4,220	4,436	4,454
Provision for loan losses	<u>535</u>	<u>133</u>	<u>248</u>	<u>275</u>	<u>189</u>
Net interest income after provision for loan losses	<u>3,318</u>	<u>3,462</u>	<u>3,972</u>	<u>4,161</u>	<u>4,265</u>
Non-interest income:					
Fees and service charges	1,069	978	1,139	1,122	946
Rental income	108	148	139	138	137
Gain on sale of securities	24	-	-	32	7
Unrealized (loss) gain on trading securities	(36)	(33)	10	(51)	27
Gain on sale of other assets	24	18	39	345	-
(Loss) gain on sale of other real estate owned	(131)	(88)	(79)	(4)	14
Loss from limited partnership	(36)	(45)	(41)	(72)	(82)
(Loss) income from real estate held for development	(411)	34	51	-	-
Gain from life insurance proceeds	-	-	-	-	27
Increase from cash surrender value of life insurance	131	126	123	118	135
Other	<u>32</u>	<u>23</u>	<u>23</u>	<u>55</u>	<u>29</u>
Total non interest income	<u>774</u>	<u>1,161</u>	<u>1,404</u>	<u>1,683</u>	<u>1,240</u>
Non interest expense:					
Compensation and benefits	2,114	2,256	2,327	2,348	2,185
Advertising	201	165	250	180	133
Office occupancy and equipment expenses	549	438	428	428	411
Data processing	445	504	476	660	558
Federal deposit insurance premiums	104	16	16	16	17
Professional fees	376	401	306	243	251
Other	<u>853</u>	<u>853</u>	<u>806</u>	<u>765</u>	<u>719</u>
Total non-interest expense	<u>4,642</u>	<u>4,633</u>	<u>4,609</u>	<u>4,640</u>	<u>4,274</u>
(Loss) income before income taxes	(550)	(10)	767	1,204	1,231
Income tax (benefit) provision	<u>(270)</u>	<u>(58)</u>	<u>119</u>	<u>344</u>	<u>350</u>
Net (loss) income	<u>(280)</u>	<u>48</u>	<u>648</u>	<u>860</u>	<u>881</u>
Basic (loss) earnings per share	(\$0.29)	\$0.05	\$0.64	\$0.90	\$0.94
Diluted (loss) earnings per share	(\$0.29)	\$0.05	\$0.64	\$0.85	\$0.87

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General. AMB Financial Corp. (the "Company") is the thrift holding company for American Savings FSB, (the "Bank"), a federally chartered savings bank. Collectively, the Company and the Bank are referred to herein as the "Company."

The Company's primary market area consists of the northwest portion of Lake County, Indiana. Business is conducted from its main office at 8230 Hohman Avenue, Munster, Indiana, as well as three full-service banking offices located in Dyer, Hammond, and Schererville, Indiana. The Bank is a community-oriented savings institution whose business primarily consists of accepting deposits from customers within its market area and investing those funds in mortgage loans secured by one-to four-family residences. To a lesser extent, funds are invested in non-residential real estate, construction, consumer, multi-family, land and commercial business loans. The Company also invests in accounts receivable, mortgage-backed and other investment securities, and leases.

The Company's results of operations are primarily dependent on net interest income, which is the difference between the interest income on its interest-earning assets, such as loans and securities, and the interest expense on its interest-bearing liabilities, such as deposits and borrowings and to a lesser degree, non-interest income and non-interest expense. Net interest income depends upon the volume of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them, respectively. When the Company's non performing assets increase, the volume of interest earning assets declines, thus adversely impacting net interest income. Non-interest income primarily consists of fees on deposits and loan products, increase in cash surrender value of life insurance, rental income, income or losses from real estate owned operations, and securities gains or losses. The Company's non-interest expenses primarily consist of employee compensation and benefits, occupancy and equipment expenses, data processing service fees, federal deposit insurance premiums, and other operating expenses.

The Company's results of operations are also affected by general economic conditions, the monetary and fiscal policies of Federal agencies and the policies of agencies that regulate financial institutions, all of which are in great flux as a result of today's economic and banking crisis. Future changes in applicable laws, regulations or government policies, which are likely, may have a material impact on the Company. Lending activities are influenced by the demand for real estate loans and other types of loans, competition among lenders, the general level of real estate values, the level of interest rates and the availability of funds. Deposit flows and costs of funds are influenced by prevailing market interest rates (including rates on non-deposit investment alternatives), account maturities, and the levels of personal income and savings in the Company's market area.

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

- the current crisis in the United States economy in general and in our local economy (including unemployment) in which we conduct operations;
- the current crisis in the securities markets;
- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board and the U.S. Treasury;
- our ability to repay our holding company debt, including our \$3 million of trust preferred stock and \$2 million of holding company notes, when due;
- the impact of new laws and regulations resulting from the current economic crisis on financial institutions, the lending market and our regulatory agencies;
- the impact of current and future restrictions and requirements on institutions like us which have accepted funds from the United States Treasury under its Capital Purchase Program;
- future deposit premium levels which are likely to rise as a result of the banking crisis;
- the impact of the possible receivership or nationalization of other banking institutions;
- future loan underwriting and consumer protection requirements;
- inflation, interest rate, market and monetary fluctuations;
- the steep decline in loan demand and real estate values within our local market;

- our ability to redeem our \$3.7 million of preferred stock and \$184,000 of warrant preferred stock issued to the UST under its CPP before the dividend on the preferred stock increases to 9% on January 30, 2014;
- the future financial strength, dividend level and activities of the FHLB of Indianapolis in which we own stock and from which we borrow money;
- the impact of any new government foreclosure relief and loan modification programs;
- the timely development of and acceptance of our new products and services and the perceived overall value of these products and services by users, including the features, pricing and quality thereof compared to competitors' products and services;
- the willingness of users to substitute our products and services for products and services of our competitors;
- our ability to reinvest our cash flows in today's very low interest rate environment;
- our success in gaining regulatory approval of our products and services, when required;
- the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities and insurance);
- the impact of technological changes;
- competition from other financial service providers in the Company's market area;
- the success of our new executives in managing our business operations;
- the success of our loan restructuring and work out arrangements;
- our ability to support the additional overhead expense resulting from our recent branch expansion; and
- future changes in consumer spending and saving habits.

The list of important factors stated above is not exclusive. We do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of AMB Financial or American Savings.

Capital Purchase Program. On January 30, 2009, the Company sold and the United States Department of the Treasury (the "UST") purchased (a) 3,674 shares of Company Fixed Rate Cumulative Perpetual Preferred Stock, Series A, having a liquidation preference of \$1,000 per share (the "Series A Preferred Shares"), and (b) a warrant (the "Warrant") to purchase up to 184 shares of Company Fixed Rate Cumulative Perpetual Preferred Stock, Series B, having a liquidation preference of \$1,000 per share (the "Series B Preferred Shares").

The purchase price for the Series A Preferred Shares was \$3,674,000 and the Warrant was exercised in a cashless transaction for nominal consideration. At closing, the Company issued to the UST 3,674 Series A Preferred Shares and 184 Series B Preferred Shares. Cumulative dividends on the Series A Preferred Shares will accrue on the liquidation preference at an annual rate of 5% per year for the first five years and at an annual rate of 9% thereafter. Cumulative dividends on the Series B Preferred Shares will accrue on the liquidation preference at an annual rate of 9%.

The CPP imposes substantial restrictions on the payment of dividends on the Company's common stock and on the Company's ability to repurchase its common stock without UST approval. The Preferred Shares generally may not be redeemed for at least three years. As a result, our ability to pay dividends, and/or make stock repurchases will be subject to significant restrictions for at least three years. The CPP subjects the Company to executive compensation limitations included in the Emergency Economic Stabilization Act of 2008.

While the Bank met the regulatory requirements for being well capitalized without participation in the CPP, the Company firmly believes that, absent knowing the extent and depth of the current economic recession, it was prudent to raise additional capital through the CPP.

A summary of the CPP can be found on the U.S. Treasury Department's website at <http://ustreas.gov/initiatives/eesa/>.

FDIC Transaction Account Guarantee Program. Through the Transaction Account Guarantee Program, the Bank is purchasing additional FDIC insurance coverage for its customers. The Bank's customers with noninterest-bearing deposit accounts, Lawyer's Trust Accounts, and NOW accounts paying interest at a rate less than 0.50 percent will be fully insured by the FDIC regardless of the account balance, through December 31, 2009. Coverage under the Transaction Account Guarantee Program is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules, which was recently increased from \$100,000 to \$250,000 per depositor.

Operating Strategy. The Company's basic mission is to maintain its focus as an independent, community-oriented financial institution focused on serving customers in its primary market area. The Board of Directors has sought to accomplish this mission through an operating strategy designed to maintain capital in excess of regulatory

requirements and manage, to the extent practical, the Company's loan delinquencies and vulnerability to changes in interest rates. The key components of the Company's operating strategy are to: (i) focus its lending operations on the origination of loans secured by one-to four-family residential real estate; (ii) supplement its one-to four-family residential lending activities with non-residential, construction, consumer, multi-family, land, and business loans; (iii) augment its lending activities with investments in purchased loans, leases, mortgage-backed and other securities; (iv) emphasize adjustable rate and/or short and medium duration assets when market conditions permit; (v) build and maintain its regular savings, transaction, money market and club accounts; and (vi) increase, at a managed pace, to the extent practicable, the volume of the Company's assets and liabilities.

Financial Condition. The total assets of the Company were \$180.1 million at December 31, 2008, an increase of \$5.3 million, or 3.1%, from \$174.8 million at December 31, 2007. The increase in assets was primarily the result of increases in net loans receivable, mortgage-backed securities, office properties and equipment, and cash and cash equivalents, partially offset by declines in investment securities and other assets. Asset growth was funded by a \$10.3 million increase in deposits, which was also utilized to pay down debt.

Cash and cash equivalents totaled a combined \$3.8 million at December 31, 2008, as compared to \$2.9 million at December 31, 2007. Investment securities, available for sale, totaled \$512,000 at December 31, 2008, as compared to \$1.7 million at December 31, 2007. The decline of \$1.2 million in investment securities was due to both maturities and sales. The remaining security in the portfolio consists of a U.S. government agency obligation. Sales during the current year consisted of the redemption of shares in a U.S. government mutual fund totaling \$214,000. At December 31, 2008, the Company had an unrealized gain on available for sale investment securities of \$12,000 compared to an unrealized gain of \$24,000 at December 31, 2007.

Trading account securities, which had consisted primarily of holdings in small thrift and community bank stocks at the Holding Company level were completely sold off as of December 31, 2008. The balance of these securities totaled \$307,000 at December 31, 2007.

Mortgage-backed securities increased \$2.8 million to \$3.6 million at December 31, 2008, as compared to \$858,000 at December 31, 2007. The increase was the result of purchases totaling \$3.2 million, offset in part by repayments totaling \$493,000. Purchases consisted of Fannie Mae and Freddie Mac, fixed rate, pass through securities, which were acquired at or near par. At December 31, 2008, the Company had an unrealized gain on available for sale mortgage-backed securities of \$78,000 compared to a \$4,000 unrealized loss at December 31, 2007.

Loans receivable increased \$2.8 million, or 1.9%, to \$150.8 million at December 31, 2008, from \$148.0 million at December 31, 2007. Loan originations and purchases totaled \$43.7 million during the twelve month period ended December 31, 2008, as compared to \$50.0 million during the prior year. Included in the 2007 total were \$1.4 million of loans, which were originated for sale into the secondary market. Offsetting the originations and purchases were amortization, prepayments and sales of loans totaling \$39.0 million and \$52.1 million for the years ended December 31, 2008 and 2007, respectively.

The determination of the allowance for loan losses involves material estimates that are susceptible to significant change in the near term. The allowance for loan losses is maintained at a level adequate to provide for losses through charges to operating expense. The allowance is based upon past loss experience and other factors, which, in management's judgment, deserve current recognition in estimating losses. Such other factors considered by management include growth and composition of the loan portfolio, the relationship of the allowance for losses to outstanding loans and economic conditions. The allowance for loan losses totaled \$855,000 at December 31, 2008, an increase of \$117,000 from the \$738,000 allowance at December 31, 2007. The Bank's allowance for loan losses to net loans receivable was 0.56% at December 31, 2008, compared to 0.50% at December 31, 2007.

Management believes that the allowance for loan losses is adequate at December 31, 2008. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in information and economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Non-performing loans totaled \$5.3 million, or 3.49% of total loans receivable at December 31, 2008, compared to \$2.6 million, or 1.72% of total loans receivable at December 31, 2007. The \$2.7 million increase in non-performing loans during the year includes \$2.4 million relating to nine loans to one individual borrower involved in a residential real estate development project located in northwest Indiana. Also included in non-performing loans at December 31, 2008, were \$3.2 million of one-to four family mortgage loans, \$931,000 of loans secured by undeveloped lots, \$579,000 of one-to four family construction loans, \$379,000 in a multi-family mortgage loan, \$118,000 of second mortgage loans, \$90,000 of secured consumer loans, \$20,000 of unsecured consumer loans, and a secured

commercial business loan totaling \$10,000. The ratio of allowance for loan losses to non-performing loans was 16.0% at December 31, 2008, compared to 28.5% at December 31, 2007.

Net real estate owned at December 31, 2008 totaled \$1.3 million. Real estate owned includes a five unit residential/commercial parcel totaling \$325,000, vacant land parcels located near Indianapolis, Indiana totaling \$305,000, one single family residential construction parcel totaling \$288,000, one nonresidential parcel totaling \$235,000, and three single family residential parcels totaling \$169,000. All of the real estate owned properties, with the exception of the land parcels in Indianapolis, are all located within the Bank's general lending area. The real estate owned properties are valued at the lower of cost or managements' estimate of net realizable value.

The Company's investment in a limited partnership decreased \$36,000 to \$676,000 at December 31, 2008, as compared to \$712,000 at December 31, 2007. The decline represents the Company's share of the operating losses generated by the partnership, which manages an investment in a low income housing apartment development, while generating housing tax credits to offset federal income tax liabilities.

Stock in the FHLB of Indianapolis increased by \$214,000, or 12.2%, totaling \$2.0 million at December 31, 2008. The Company is required to hold stock in the FHLB of Indianapolis in order to obtain advances. The amount of FHLB stock required to be held by the Company is determined by the amount of borrowed funds from the FHLB of Indianapolis, which increased significantly during the first several months of 2008 but which has since been paid down. Although the Company carries this stock at par value based upon our review and evaluation of the FHLB of Indianapolis, there is a risk that the value of securities could be impaired in the future as a result of the current mortgage and securities crisis.

Office properties and equipment increased to \$8.6 million at December 31, 2008, as compared to \$6.2 million at December 31, 2007. The increase of \$2.4 million was due to the near completion of new construction of a three-story office building located in Schererville, Indiana, which was opened to the public in October 2008. While the Bank utilizes a portion of the building as a full service branch office, the remainder of the building is being actively marketed for lease.

The Company had previously acquired, in conjunction with an agreement with a local builder, vacant lots on which to construct single-family residences in St. John and Munster, Indiana. At December 31, 2008, the Company's \$1.2 million investment in real estate development projects consisted of two completed single-family dwelling units and four vacant lots. Due to the slowdown in the real estate market, the Company has decided not to build on the remaining vacant lots. All of the completed units and vacant lots are currently listed for sale. During the year ended December 31, 2008, the Company reduced the carrying amount of the properties by \$351,000 based upon market conditions and also sold one single family residence realizing proceeds of \$383,000, while recognizing a loss of \$60,000. In view of the current weak real estate market, there can be no assurance whether, when, and at what price the Company will be able to sell these assets.

Bank owned life insurance increased \$131,000 to \$3.9 million at December 31, 2008, as compared to December 31, 2007. The change represents the increase in the cash surrender value of the life insurance policies purchased in connection with deferred compensation plans utilized by directors and officers of the Company.

Prepaid expenses and other assets decreased \$2.1 million to \$3.0 million at December 31, 2008, as compared to December 31, 2007. The decline was due to a \$2.2 million decrease in the Company's purchased accounts receivable program, which totaled \$1.5 million at December 31, 2008. The program involves the purchase and subsequent management of the accounts receivables of credit-worthy business customers.

Deposits increased \$10.3 million, or 8.7%, to \$129.2 million at December 31, 2008, from \$118.9 million at December 31, 2007. The increase in deposits is due to an increase in checking and money market deposits totaling \$6.6 million and an increase in certificates of deposits totaling \$3.7 million. At December 31, 2008, the Bank's non-certificate accounts (passbook, checking and money market accounts) comprised \$46.9 million, or 36.3% of deposits, compared to \$40.3 million, or 33.9% of deposits at December 31, 2007. The increase in non-certificate deposits during the current period is attributable in part to a \$1.7 million average deposit balance increase related to one business customer, a \$1.5 million new account relationship with a local municipality, as well as customer preference for short-term liquidity. The increase in certificates of deposits is due in part to the addition of a \$1.0 million municipal short-term certificate as well as special promotion short-term certificates in conjunction with the new branch opening.

Borrowed money, which consisted primarily of FHLB of Indianapolis advances, decreased by \$5.0 million, or 14.0%, to \$30.9 million at December 31, 2008, as compared to \$35.9 million at December 31, 2007. The Company was able to reduce borrowings due in part to the aforementioned increase in deposit balances. Borrowings from the FHLB of Indianapolis totaled \$28.7 million at December 31, 2008, compared with \$33.4 million in 2007. At December 31, 2008, the weighted average rate on the FHLB of Indianapolis borrowings was 4.26%, compared to a 4.87% at December

31, 2007, while the weighted term to maturity of the Company's FHLB of Indianapolis borrowings at December 31, 2008 was 1.9 years.

Total stockholders' equity of the Company decreased by \$502,000 to \$13.0 million, or 7.19% of total assets, at December 31, 2008, compared to \$13.5 million, or 7.70% of total assets at December 31, 2007. The decrease in stockholders' equity was the result of the Company's net loss of \$280,000 for the year ended December 31, 2008 and the payment of \$265,000 in cash dividends, offset in part by an unrealized market value gain on available for sale securities during the year, net of tax, in the amount of \$42,000. At September 30, 2008, the Company's board of directors decided to suspend the regular quarterly dividend in an effort to conserve cash. The number of common shares outstanding at December 31, 2008 was 981,638 and the book value per common share outstanding was \$13.19. The Bank's tangible, core and risk-based capital percentages of 8.50%, 8.50% and 12.92%, respectively, at December 31, 2008 exceeded all regulatory requirements and categorize the Bank as well capitalized under OTS guidelines.

It is not clear how serious an effect the current economic crisis will have on the Company's loan volume, credit quality and deposit flows. However, management believes that the Company's construction loans, non-owner occupied loans, purchased loans, and consumer loans, as well as the real estate it owns, may be particularly sensitive to adverse economic conditions.

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

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

ANALYSIS OF NET INTEREST INCOME TABLE

For the Year Ended December 31,

(Dollars in thousands)

	2008			2007			2006		
	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate
Assets:									
Interest-Earning Assets									
Loans receivable (1)	149,034	9,177	6.16%	146,047	9,497	6.50%	146,688	9,553	6.51%
Mortgage-backed securities	1,853	85	4.59%	1,015	46	4.53%	1,448	70	4.83%
Investment securities	1,080	59	5.46%	3,080	156	5.06%	3,411	166	4.87%
Interest-bearing deposits	2,043	37	1.81%	5,196	258	4.97%	3,290	152	4.62%
FHLB stock	1,928	94	4.88%	1,751	80	4.57%	1,761	86	4.88%
Total interest-earning assets	155,938	9,452	6.06%	157,089	10,037	6.39%	156,598	10,027	6.40%
Non-interest earning assets	23,279			20,196			18,415		
Total assets	179,217			177,285			175,013		
Liabilities and Stockholders Equity:									
Interest-Bearing Liabilities									
Passbook accounts	17,199	174	1.01%	17,542	186	1.06%	18,541	232	1.25%
Demand and NOW accounts	26,927	425	1.58%	23,498	372	1.58%	24,687	434	1.76%
Certificate accounts	79,399	3,148	3.96%	80,319	3,838	4.78%	80,834	3,309	4.09%
Total deposits	123,525	3,747	3.03%	121,359	4,396	3.62%	124,062	3,975	3.20%
Borrowings	35,218	1,649	4.68%	33,131	1,774	5.35%	27,260	1,378	5.06%
Junior subordinated debentures	3,000	203	6.77%	3,495	272	7.78%	5,000	454	9.08%
Total interest-bearing liabilities	161,743	5,599	3.46%	157,985	6,442	4.08%	156,322	5,807	3.71%
Non-interest liabilities	4,279			5,104			4,206		
Total liabilities	166,022			163,089			160,528		
Stockholders equity	13,195			14,196			14,485		
Total liabilities and stockholders equity	179,217			177,285			175,013		
Net interest income /									
net interest rate spread		3,853	2.60%		3,595	2.31%		4,220	2.69%
Net interest-earning assets /									
net interest margin	(5,805)		2.47%	(896)		2.29%	276		2.69%
Ratio of interest-earning assets									
to interest bearing liabilities	.96x			.99x			1.00x		

(1) Calculated net of loans in process, deferred yield adjustments and allowance for loan losses.

The table below presents the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest bearing liabilities have affected the Company's interest income and interest expense during the period indicated. Information is provided in each category with respect to (i) changes attributable to changes in rate (changes in rate multiplied by prior volume), (ii) changes attributable to changes in volume (changes in volume multiplied by prior rate), (iii) changes attributable to the combined impact of volume and rate (changes in the rate multiplied by the changes in the volume), and (iv) the net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

For the Year Ended December 31,

	2008 Compared to 2007				2007 Compared to 2006			
	<u>Increase (Decrease) Due to</u>				<u>Increase (Decrease) Due to</u>			
	Rate	Volume	Rate/ Volume	Net	Rate	Volume	Rate/ Volume	Net
	(Dollars in thousands)				(Dollars in thousands)			
Interest-earning assets:								
Loans receivable, net	\$ (504)	194	(10)	(320)	(14)	(42)	-	(56)
Mortgage-backed securities	1	38	-	39	(4)	(21)	1	(24)
Investment securities	12	(101)	(8)	(97)	7	(16)	(1)	(10)
Interest-bearing deposit	(164)	(157)	100	(221)	11	88	7	106
FHLB Stock	5	8	1	14	(6)	-	-	(6)
Totals	<u>\$ (650)</u>	<u>(18)</u>	<u>83</u>	<u>(585)</u>	<u>(6)</u>	<u>9</u>	<u>7</u>	<u>10</u>
Interest-bearing liabilities:								
Passbook accounts	\$ (9)	(3)	-	(12)	(35)	(13)	2	(46)
Demand and Now accounts	(1)	54	-	53	(43)	(21)	2	(62)
Certificate accounts	(653)	(44)	7	(690)	554	(21)	(4)	529
Borrowed funds	(223)	112	(14)	(125)	82	296	18	396
Junior subordinated debentures	(35)	(39)	5	(69)	(65)	(137)	20	(182)
Totals	<u>\$ (921)</u>	<u>80</u>	<u>(2)</u>	<u>(843)</u>	<u>493</u>	<u>104</u>	<u>38</u>	<u>635</u>
Net change in net interest income				<u>\$ 258</u>				<u>\$ (625)</u>

Comparison of the Results of Operations for the Years Ended December 31, 2008 and 2007

General – The Company recorded a net loss totaling \$280,000 for the year ended December 31, 2008, as compared to net income totaling \$48,000 for the year ended December 31, 2007. The diluted loss per share totaled (\$0.29) for the year ended December 31, 2008, as compared to diluted earnings of \$0.05 per share for the year ended December 31, 2007. The current period loss is primarily attributable to a \$411,000 loss incurred on the write down and sale of real estate held for development, holding costs totaling \$107,000 consisting primarily of real estate tax expenses related to the properties, as well as increased provisions for loan losses totaling \$402,000. The Company believes that these current period developments reflect the recent weak residential real estate market, which has impacted most of the country.

Interest income - Total interest income decreased by \$585,000, or 5.8%, to \$9.5 million for the year ended December 31, 2008, as compared with the prior year. This decrease was the result of a \$1.2 million decrease in the average balance of interest-earning assets to \$155.9 million for the year ended December 31, 2008, as compared to \$157.1 million for the year ended December 31, 2007, as well as a decrease in the average yield on interest-earning assets to 6.06% for the year ended December 31, 2008, as compared to 6.39% for the year ended December 31, 2007. The decrease in the average balance of interest-earning assets was primarily due to decreases in the average balance of interest-bearing deposits and investment securities offset by an increase in loans receivable. The decrease

in the average yield of interest-earning assets reflects the impact of lower yields earned on interest bearing deposits and loans receivable due to reductions in short and long-term interest rates, as compared to the same period one-year ago.

Interest income on loans receivable decreased \$321,000, to \$9.2 million at December 31, 2008, as compared to the prior year. The decrease in interest income on loans was the result of a 34 basis point decline in the average yield to 6.16% for the year ended December 31, 2008, from 6.50% for the year ended December 31, 2007, offset in part by a \$3.0 million increase in the average balance of loans outstanding to \$149.0 million for the year ended December 31, 2008, as compared to \$146.0 million for the year ended December 31, 2007. The decrease in the average yield on loans receivable reflects the impact of lower yielding new originations and purchases, interest rate reductions on adjustable rate loans, which are indexed to Prime, as well as an increase in the Company's level of nonperforming loans. The increase in the average balance was due to higher levels of new originations and purchases exceeding principal repayments.

Interest income on mortgage-backed securities increased \$39,000 totaling \$85,000 at December 31, 2008, due to an \$838,000 increase in the average balance in the portfolio. The average balance increased due to purchases of \$3.2 million during the current year. Interest income on investment securities decreased \$97,000, to \$59,000 at December 31, 2008, as compared to the prior year. The decrease in interest income on investment securities was the result of a \$2.0 million decrease in the average balance of investment securities outstanding, which was partially offset by an increase in the average yield to 5.46% for the year ended December 31, 2008, from 5.06% for the year ended December 31, 2007. The decrease in the average balance was due primarily to maturities and sales of investment securities. Interest income on interest bearing deposits decreased by \$220,000, to \$37,000 at December 31, 2008, from \$257,000 at December 31, 2007. The decrease in interest income was the result of a \$3.2 million decrease in the average balance outstanding, as well as a decrease in the average yield to 1.81% for the year ended December 31, 2008, from 4.97% for the year ended December 31, 2007. The decrease in the average balance was due in part to fund loan originations and the construction of a new branch office. The decrease in the average yield was due to lower short-term interest rates paid on overnight deposits during the latter portion of 2008, as compared to 2007. Dividend income on FHLB of Indianapolis stock increased by \$14,000, to \$94,000 at December 31, 2008, as compared to the prior year. The increase in dividend income was the result of an increase in the average yield to 4.88% for the year ended December 31, 2008, from 4.57% for the year ended December 31, 2007, and an average balance outstanding increase of \$177,000 due to FHLB of Indianapolis stock purchase requirements.

Interest Expense - Total interest expense decreased by \$843,000, or 13.1%, to \$5.6 million for the year ended December 31, 2008, as compared to the prior year. The cost of interest-bearing liabilities decreased 62 basis points to 3.46% for the year ended December 31, 2008, as compared to 4.08% for the year ended December 31, 2007, due primarily to declining short-term interest rates, which enabled management to lower the rate on maturing certificates of deposits and still remain competitive. Partially offsetting this decline was a \$3.7 million increase in the outstanding average balance of interest-bearing liabilities to \$161.7 million for the year ended December 31, 2008, as compared to \$158.0 million for the year ended December 31, 2007. The increase in the average balance of interest-bearing liabilities was primarily due to a \$1.6 million increase in the average outstanding balance of borrowings consisting primarily of FHLB of Indianapolis advances along with a \$2.2 million increase in average deposit balances outstanding.

Interest expense on deposits decreased by \$648,000, or 14.7%, to \$3.7 million for the year ended December 31, 2008, as compared with the prior year, as a result of a 59 basis point decrease in the average cost of deposits to 3.03% for the year ended December 31, 2008 from 3.62% for 2007, offset in part by a \$2.2 million increase in the average balance of deposits outstanding. The decrease in the average cost of deposits was primarily impacted by an 82 basis point decrease on certificates of deposits to an average rate of 3.96% during 2008, as compared to an average rate of 4.78% for 2007. During 2008, the majority of certificates of deposits that were scheduled to reprice did so at relatively lower short-term rates.

Interest expense on borrowings decreased by \$195,000, or 9.5%, to \$1.9 million for the year ended December 31, 2008, as compared with the prior year as a result of a 75 basis point decline in the average cost of borrowed funds, to 4.84% for the year ended December 31, 2008 compared to 5.59% for the year ended December 31, 2007, offset by a \$1.6 million increase in the average balance of borrowings to \$38.2 million for the year ended December 31, 2008, from \$36.6 million for the year ended December 31, 2007. Interest expense on FHLB of Indianapolis advances decreased by \$191,000 to \$1.5 million for the year ended December 31, 2008, as compared with the prior year as a result of a decrease of 79 basis points in the average cost of FHLB of Indianapolis advances to 4.48%, offset in part by a \$1.3 million increase in the average balance to \$32.6 million for the year ended December 31, 2008, from \$31.3 million for the year ended December 31, 2007. Interest expense on other borrowings decreased \$4,000 to \$391,000 for the year ended December 31, 2008, as compared to \$395,000 for the prior year. The decrease was due primarily to the Company's refinancing of its trust preferred issue at a reduced rate of interest.

Net Interest Income - As a result of the above changes in interest income and interest expense, net interest income increased \$258,000, or 7.2%, to \$3.9 million for the year ended December 31, 2008, as compared to the prior year. The net interest rate spread increased to 2.60% during the current year, as compared to 2.31% for the year ended December 31, 2007. The net interest margin also increased to 2.47% in the current year, as compared to 2.29% a year ago. The net interest rate spread and net interest margin increased between the periods primarily due to a decrease in the average cost of interest-bearing liabilities, which was favorably impacted by federal funds rate declines which occurred throughout 2008.

Provision for Loan Losses - The Company recorded a provision for loan losses of \$535,000 during the current year, as compared to \$133,000 during the prior year due to the increase in non-performing loans previously discussed and loan charge-offs, which have been impacted by severe slowing conditions in both the local and national economy. The recording of a \$249,000 loan loss recovery favorably impacted the prior year's provision. During the current year, the Bank's net charge-offs totaled \$418,000 due primarily to losses incurred on single family and non residential loans as they were written down to current market values upon transfer into real estate owned. The provision during the current year was primarily the result of managements' periodic assessment of the allowance for loan losses on loans. Based upon managements' assessment, appropriate provisions are made to maintain the adequacy of the allowance to cover probable losses in the loan portfolio. The amount of the allowance is based on estimates and ultimate losses may vary from such estimates.

Non-Interest Income - Non-interest income decreased by \$387,000, to \$774,000 for the year ended December 31, 2008, as compared to \$1.2 million for the year ended December 31, 2007. The reduction was due in part to the recognition of the aforementioned \$411,000 in losses from write-downs of real estate held for development and sales compared to \$34,000 in gains in the prior year's period, an increase of \$42,000 in losses on the sale of real estate owned and, a \$40,000 decline in rental income due to a vacancy at the Company's Dyer, Indiana branch office. Partially offsetting these was a \$68,000 increase in other fee income primarily related to the Company's accounts receivable program due to increased volumes experienced during most of 2008 and an \$18,000 increase in deposit fee income.

Non-Interest Expense - Non-interest expense increased by \$9,000, to \$4.6 million at December 31, 2008. Occupancy and equipment expenses increased by \$111,000 primarily due to the opening of the new branch office in October 2008, an \$87,000 increase in federal deposit insurance premiums due to the Bank fully utilizing its FDIC insurance credit in 2007, and a \$37,000 increase in advertising expenses also related to the aforementioned new branch office. These increases were offset in part by a \$142,000 decrease in compensation and benefit expenses, primarily in reduced pension costs, a \$59,000 decline in data processing expense due in part to the contract renegotiation of the primary data processing vendor of the Bank, and \$26,000 decline in professional and legal fees due to lower consulting expenses.

It is anticipated that our occupancy and equipment expenses, compensation and various other expenses will increase significantly in future periods as a result of the October 2008 opening of our new branch office facility. The Company is attempting to lease that portion of the building that it is not utilizing to offset some of these costs. In addition, it is anticipated that our FDIC insurance premiums will increase substantially in future periods, as a result of the FDIC's recent decision to substantially increase its assessment rates.

Income Taxes - The Company recorded an income tax benefit of \$270,000 for the year ended December 31, 2008, as compared to an income tax benefit of \$58,000 for the year ended December 31, 2007. The current year's tax benefit was generated in part by the net loss incurred during the current year as well as by favorable permanent tax adjustments relating to increases in cash value on Bank owned life insurance while the prior year's tax benefit was also generated in part by these favorable permanent tax adjustments as well as refunds generated from amending a prior year's state income tax return.

Comparison of the Results of Operations for the Years Ended December 31, 2007 and 2006

General - Net income for the year ended December 31, 2007 decreased \$600,000, or 92.5% to \$48,000, as compared to \$648,000 for the year ended December 31, 2006. Diluted earnings per share totaled \$.05 per share for the year ended December 31, 2007 and \$.64 per share for the year ended December 31, 2006. Return on average stockholders' equity decreased to 0.34% for the year ended December 31, 2007, from 4.48% for the year ended December 31, 2006. Return on average assets decreased to .03% for the year ended December 31, 2007, from .37% for the year ended December 31, 2006. The decreases in net income and the related return ratios for the year ended December 31, 2007 were primarily the result of decreases in net interest income and non-interest income, offset in part, by a decrease in the provision for loan losses and a reduction in income tax expense.

Interest income - Total interest income increased by \$10,000 to \$10.0 million for the year ended December 31, 2007, as compared to the year ended December 31, 2006. This increase was the result of an increase of \$490,000 in the

average balance of interest-earning assets to \$157.1 million for the year ended December 31, 2007, as compared to \$156.6 million for the year ended December 31, 2006, partially offset by a slight decrease in the average yield on interest-earnings assets to 6.39% for the year ended December 31, 2007, as compared to 6.40% for the year ended December 31, 2006. The increase in the average balance of interest-earnings assets was due to an increase in the average balance of interest bearing deposits.

Interest income on loans receivable decreased \$56,000 to \$9.5 million for the year ended December 31, 2007, as compared to the year ended December 31, 2006. The decrease in interest income on loans was the result of a \$641,000 decrease in the average balance of loans outstanding, as well as a one basis point decline in the average yield to 6.50% for the year ended December 31, 2007, from 6.51% for the year ended December 31, 2006. The decrease in the average balance was due to principal repayments exceeding lower levels of new originations as a result of the current real estate lending environment. The decrease in the average yield on loans receivable reflects the impact of repayments on higher rate loans, which were replaced with lower yielding new originations and purchases. Interest income on mortgage-backed securities decreased \$24,000, or 33.3% due to a \$433,000 decrease in the average balance in the portfolio as well as a decrease in the average yield to 4.53% for the year ended December 31, 2007, as compared to 4.83% for the year ended December 31, 2006. Interest income on investment securities decreased \$10,000, or 6.2%, to \$156,000 for the year ended December 31, 2007, as compared to the year ended December 31, 2006. The decrease in interest income on investment securities was the result of a \$331,000 decrease in the average balance of investment securities outstanding, which was partially offset by an increase in the average yield to 5.06% for the year ended December 31, 2007, from 4.87% for the year ended December 31, 2006. The decrease in the average balance was due to the early redemption of investment securities during the year ended December 31, 2007. Interest income on interest bearing deposits increased by \$106,000, or 69.6% for the year ended December 31, 2007, as compared to the year ended December 31, 2006. The increase in interest income was the result of a \$1.9 million increase in the average balance outstanding, as well as an increase in the average yield to 4.97% for the year ended December 31, 2007, from 4.62% for the year ended December 31, 2006. The increase in the average balance was due in part to excess funds from loan repayments. The increase in the average yield was due to higher short-term interest rates paid on overnight deposits during 2007, as compared to 2006. Dividend income on FHLB of Indianapolis stock decreased by \$6,000, or 7.4% for the year ended December 31, 2007, as compared to the year ended December 31, 2006. The decrease in dividend income was the result of a \$10,000 decrease in the average balance outstanding, as well as a decrease in the average yield to 4.57% for the year ended December 31, 2007, from 4.88% for the year ended December 31, 2006. The decrease in the average balance was due to stock redemptions during 2006, which lowered the average balance for 2007, while the decrease in the average yield reflects the impact of a lower dividend rate paid in 2007, as compared to 2006.

Interest Expense - Total interest expense increased by \$635,000, or 10.9%, to \$6.4 million for the year ended December 31, 2007, as compared to \$5.8 million for the year ended December 31, 2006. The cost of interest-bearing liabilities increased 37 basis points to 4.08% for the year ended December 31, 2007, as compared to 3.71% for the year ended December 31, 2006, as higher short-term interest rates required management to raise the rate on repricing certificates of deposits to remain competitive. The average balance of interest-bearing liabilities also increased by \$1.7 million to \$158.0 million for the year ended December 31, 2007, as compared to \$156.3 million for the year ended December 31, 2006.

Interest expense on deposits increased by \$421,000, or 10.6% to \$4.4 million for the year ended December 31, 2007, as compared to the year ended December 31, 2006 as a result of a 42 basis point increase in the average cost of deposits. The increase in the average cost of deposits was primarily impacted by a 69 basis point average rate increase on certificates of deposits to an average rate of 4.78% during 2007, as compared to an average rate of 4.09% for 2006. During 2007, the majority of certificates of deposits that were scheduled to reprice did so at relatively higher short-term rates.

Interest expense on borrowings increased by \$214,000 to \$2.0 million, or 11.7% for the year ended December 31, 2007, as compared to the year ended December 31, 2006 as a result of a \$4.4 million increase in the average balance of borrowings to \$36.6 million for the year ended December 31, 2007, from \$32.3 million for the year ended December 31, 2006. The increase was partially offset by a decrease of nine basis points in the average cost of borrowed funds. Interest expense on FHLB of Indianapolis advances increased by \$291,000 to \$1.7 million for the year ended December 31, 2007, as compared to the yearend ended December 31, 2006 as a result of a \$4.3 million increase in the average balance of borrowings to \$31.3 million for the year ended December 31, 2007, from \$27.0 million for the year ended December 31, 2006, as well as an increase of 23 basis points in the average cost of borrowed funds to 5.27% for the year ended December 31, 2007. Interest expense on other borrowings increased \$105,000 to \$123,000 at December 31, 2007, as compared to \$18,000 for the year ended December 31, 2006. The increase was due primarily to the aforementioned \$2.0 million borrowing in conjunction with the Company's refinancing of its trust preferred issue and an additional \$300,000 borrowing from a third-party lender. During the first quarter of 2007, the Company repaid its \$5.0 million trust preferred issue and replaced it with a new \$3.0 million trust preferred issue at a reduced rate as well as the \$2.0 million borrowing discussed above. Interest expense on trust

preferred borrowings decreased \$182,000, to \$272,000 at December 31, 2007, as compared to \$454,000 at December 31, 2006. The decrease was due to a \$1.5 million decline in the average balance outstanding as well as a 130 basis point decline in the weighted average cost of the borrowing.

Provision for Loan Losses - The Company establishes provisions for losses on loans, which are charged to operations, in order to maintain the allowance for losses on loans at a level, which is deemed appropriate to absorb losses inherent in the portfolio. In determining the appropriate level of the allowance for loan losses, management considers past and anticipated loss experience, evaluations of real estate collateral, current and anticipated economic conditions, volume and type of lending, and the levels of non-performing and other classified loans. The amount of the allowance is based on estimates, and ultimate losses may vary from such estimates. Management assesses the allowance for losses on loans on a periodic basis and makes appropriate provisions to maintain the adequacy of the allowance. The actual determination of the total provision is the combination of specific reserves, which may be established from time to time on individual classified assets, and a general reserve that is based in part on certain ratios applied to various loan pools as stratified by the Company, considering historical charge-offs and delinquency levels.

Based on management's assessment of the adequacy of the loan loss reserve, the Company recorded a provision for loan losses of \$133,000 for the year ended December 31, 2007, as compared to \$248,000 for the year ended December 31, 2006. The year ended December 31, 2006 includes \$108,000 of additional provision for establishing a loan loss reserve against a non-residential loan, which was subsequently charged off. Total charge-offs were \$331,000 and \$342,000 during the years ended December 31, 2007 and 2006, respectively, while recoveries on loans previously charged off totaled \$250,000 and \$32,000 during the same periods. The allowance for loan losses totaled \$738,000 at December 31, 2007, as compared to \$686,000 at December 31, 2006.

Non-Interest Income - Non-interest income decreased by \$243,000, or 17.4% to \$1.2 million for the year ended December 31, 2007, as compared to \$1.4 million for the year ended December 31, 2006. The decrease was due in part to a \$161,000 decline in service fee income, primarily in loan related fees due in part to a decline in origination activity and accounts receivable program fees due to a decline in volume, a \$43,000 decline in income from trading securities due to a decline in the market value of the Company's investment in equity securities, a \$21,000 decline in gains on the sale of assets due to the Company recording a \$39,000 gain on the sale of stock in the Bank's data processing provider during the year ended December 31, 2006, a \$9,000 increase in losses on the sale of real estate owned properties, and a \$17,000 reduction in income from real estate held for development.

Non-Interest Expense - Non-interest expense increased by \$24,000 for the year ended December 31, 2007, as compared to the year ended December 31, 2006 primarily due to a \$95,000 increase in professional fees, a \$47,000 increase in other expenses, and a \$28,000 increase in data processing expenses. The increase in professional fees was the result of a \$45,000 increase in legal fees related to lending activities and holding company issues, as well as a \$42,000 increase in professional fees regarding consulting matters. The increase in other expenses of \$47,000 was impacted in part by a \$30,000 loss incurred on a fraudulent check. Partially offsetting these increases was a decline in compensation and benefits of \$71,000 and decreased advertising costs of \$85,000. The decline in compensation and benefits was due to an \$87,000 reduction in the management incentive program, partially offset by a \$50,000 contribution to the employee stock ownership plan of the Company, and a \$39,000 decrease in stock option compensation expense. In order to more closely align the interests of its employees and shareholders, the Company elected to fund the employee stock ownership plan and eliminate any management bonus for 2007. The decrease in advertising expense was due to the Company not undertaking as many promotions during the year ended December 31, 2007, as compared to the year ended December 31, 2006.

Income Taxes - The Company recorded an income tax benefit of \$58,000 for the year ended December 31, 2007, as compared to an income tax expense of \$119,000 for the year ended December 31, 2006. The 2007 year's tax benefit was generated in part by favorable permanent tax adjustments. The 2006 year's tax expense was positively impacted by the recognition of \$70,000 in low-income housing tax credits. No low-income housing tax credit was recorded in the 2007 year due to no book taxable income to offset. The 2006 year's tax provision was also impacted as a result of amending prior years' state income tax returns, which resulted in the Company receiving \$25,000 in refunds.

Qualitative and Quantitative Disclosure of Market Risk

The principal objectives of the Company's interest rate risk management activities are to: (i) define an acceptable level of risk based on the Company's business focus, operating environment, capital and liquidity requirements, and performance objectives; (ii) quantify and monitor the amount of interest rate risk inherent in its asset/liability structure; and (iii) modify the Company's asset/liability structure, as necessary, to manage interest rate risk and net interest margins in changing rate environments. Management seeks to achieve these objectives through an analysis of the value of the Company's net portfolio value ("NPV") under different interest rate scenarios and the ratio of interest rate sensitive assets to interest rate sensitive liabilities within specified maturities or repricing periods. The Company does

not currently engage in the use of off-balance sheet derivative instruments to control interest rate risk and management does not intend to engage in such activity in the immediate future.

Notwithstanding the Company's interest rate risk management activities, the potential for changing interest rates is an uncertainty that could have an adverse effect on the earnings and net asset value of the Company. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a given period, a significant increase in market interest rates could adversely affect net interest income. Similarly, when interest-earning assets mature or reprice, which can occur through the prepayment of long-term loans more quickly than interest-bearing liabilities and net asset value, falling interest rates could result in a decrease in net interest income and net asset value. Also, changes in interest rates usually have an impact on the value of the Company's financial assets. Finally, a flattening or inversion of the "yield curve" (i.e., a narrowing of the spread between long- and short-term interest rates), could adversely impact net interest income to the extent that the Company's assets have a longer average term than its liabilities. The Company is particularly concerned about this possibility in view of the recent decline in residential mortgage rates.

In managing the Company's asset/liability position, the Board and management attempt to manage the Company's interest rate risk while enhancing net interest margins. However, the Board of Directors generally believes that the increased net interest income resulting from a mismatch in the maturity of the Company's asset and liability portfolios can, during periods of declining or stable interest rates and periods in which there is a substantial positive difference between long- and short-term interest rates (i.e., a "positively sloped yield curve"), provide high enough returns to justify the increased exposure to sudden and unexpected increases in interest rates. As a result, the Company's results of operations and net portfolio values remain significantly vulnerable to increases in interest rates and to fluctuations in the difference between long- and short-term interest rates. In particular, our net interest margin has been adversely affected by the recent flat and inverted yield curve interest rate environment.

One approach used by management to monitor its exposure to interest rate risk is the NPV analysis. The NPV represents the excess of the present value of expected cash flows from assets over the present value of expected cash flows from liabilities. The NPV model estimates the sensitivity of the Bank's NPV over a series of instantaneous and sustained parallel shifts in interest rates.

Presented below, as of December 31, 2008 and 2007, is an analysis of the Bank's interest rate risk as measured by changes in NPV for instantaneous and sustained parallel shifts in the yield curve in basis point increments, up to 300 basis points and down to 100 and 200 basis points in 2008 and 2007, respectively. As illustrated in the table, the Bank's NPV is more sensitive to rising rates than declining rates. From an overall perspective, such difference in sensitivity occurs principally because, as rates rise, borrowers do not prepay fixed rate loans as quickly as they do when interest rates are declining. Also, the interest the Bank would pay on its deposits in the event of a rate increase would increase more rapidly than the yield on its assets because the Bank's deposits generally have shorter periods to repricing.

NET PORTFOLIO BALANCES
Year Ended December 31,

<u>Assumed</u> <u>Change in Interest Rates</u> <u>(Basis Points)</u>	<u>2008</u>			<u>2007</u>		
	<u>\$ Amount</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Amount</u>	<u>\$ Change</u>	<u>% Change</u>
	(dollars in thousands)					
+300	12,121	(5,011)	(29)	11,454	(5,857)	(34)
+200	14,941	(2,191)	(13)	13,615	(3,696)	(21)
+100	16,597	(535)	(3)	15,860	(1,450)	(8)
+ 50	16,970	(162)	(1)	16,775	(536)	(3)
	17,132			17,311		
- 50	17,019	(113)	(1)	17,550	240	2
-100	16,787	(345)	(2)	17,585	275	2
-200	N/A	N/A	N/A	17,211	(100)	(1)

Certain assumptions utilized by the OTS in assessing the interest rate risk of thrift institutions were employed in preparing the preceding table. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates, and the market values of certain assets under the various interest rate scenarios. It was also assumed that delinquency rates would not change in connection with changes in interest rates although there can be no assurance that this will be the case. Even if interest rates change in the designated amounts, there can be no assurance that the Bank's assets and liabilities would perform as set forth above. In addition, an increase or decrease in U.S. Treasury rates in the designated amounts, accompanied by a change in the shape of the Treasury yield curve, would significantly change the results set forth.

Other types of market risk, such as foreign currency exchange risk and commodity price risk, do not arise in the normal course of the Company's business activities.

Liquidity and Capital Resources

The Company's primary sources of funds are deposits, borrowings, principal and interest payments on loans and securities and, to a lesser extent, proceeds from the sale of loans and securities. While maturities and scheduled amortization of loans and securities provide a relatively predictable flow of funds, other sources of funds such as loan prepayments and deposit inflows are less predictable due to the effects of changes in interest rates, economic conditions and competition.

The primary investing activity of the Company is the origination and purchase of real estate and other loans. During the years ended December 31, 2008 and 2007, the Company's disbursements for loan originations totaled \$41.2 million and \$42.4 million, respectively, and loan purchases totaled \$2.5 million and \$6.2 million, respectively.

For the year ended December 31, 2008, the Company experienced a net increase in deposits (including the effect of interest credited) of \$10.3 million, as compared to a net decrease in deposits of \$6.0 million during 2007. New borrowings, consisting primarily of FHLB of Indianapolis advances, totaled \$32.3 million during 2008, compared to \$19.8 million in 2007. Borrowings of \$37.3 million and \$20.2 million were repaid in fiscal 2008 and 2007, respectively. The necessary liquidity needed during 2008 was obtained through the utilization of net deposit inflows.

The Company may borrow funds from the FHLB of Indianapolis subject to certain limitations. At December 31, 2008, based on the level of qualifying collateral available to secure advances, the Company's had an unused borrowing capacity of \$32.8 million.

The Company's most liquid assets are cash and cash equivalents, which include highly liquid short-term investments, such as overnight deposits, that are readily convertible to known amounts of cash. The level of these assets is dependent on the Company's operating, financing and investing activities during any given period. At December 31, 2008 and 2007, cash and cash equivalents totaled \$3.8 million and \$2.9 million, respectively.

At December 31, 2008, the Company had outstanding loan origination commitments of \$2.1 million. Undisbursed loans in process totaled \$1.2 million at year-end. The Bank has approved, but unused, home equity lines of credit of approximately \$5.0 million at December 31, 2008. In addition, the Company has approved, but unused, equity lines of credit on various construction and commercial projects of approximately \$2.1 at December 31, 2008, as well as approved, but unused, credit card lines of credit of approximately \$1.8 million. The Company anticipates that it will have sufficient funds available to meet its current loan originations and other commitments. Certificates of deposit scheduled to mature in one year or less from December 31, 2008 totaled \$62.6 million. Based on the Company's most recent experience and pricing strategy, management believes that a significant portion of such deposits will remain with the Company.

The OTS capital regulations require savings institutions to meet two minimum capital standards: a 4% leverage (core capital) ratio and an 8% risk-based capital ratio. The Bank satisfied these minimum capital standards at December 31, 2008 with a leverage capital ratio of 8.50% and a total risk-based capital ratio of 12.92%. In determining the amount of risk-weighted assets for purposes of the risk-based capital requirement, a savings institution must compute its risk-based assets by multiplying its assets and certain off-balance sheet items by risk-weights, which range from 0% for cash and obligations issued by the United States Government or its agencies, to 100% for consumer and commercial loans, as assigned by the OTS capital regulations. These capital requirements, which are applicable to the Bank only, do not consider additional capital held at the Company level, and require certain adjustments to stockholder's equity to arrive at the various regulatory capital amounts.

The Bank may not declare or pay cash dividends on, or repurchase any of its shares of common stock if the effect thereof would cause equity to be reduced below applicable regulatory capital requirements, or the amount required to be maintained for the liquidation account established in connection with the Conversion. The Bank paid \$439,000 and \$800,000 in dividends to the Company for the years ended December 31, 2008 and 2007 respectively. Unlike the

Bank, the Company is not subject to OTS regulatory restrictions on the payment of dividends to its shareholders; however, it is subject to the requirements of Delaware law. Delaware law generally limits dividends to an amount equal to the excess of the net assets of the Company (the amount by which total assets exceed total liabilities) over its statutory capital, or if there is no such excess, to its profits for the current and/or immediately preceding fiscal year.

As a result of the Company's participation in the Trouble Asset Relief Program's Capital Purchase Program, substantial restrictions have been imposed on the Company's ability to pay dividends to its stockholders. The CPP imposes substantial restrictions on the payment of dividends on the Company's common stock and on the Company's ability to repurchase its common stock without UST approval. As a result, the Company's ability to pay dividends, and/or make stock repurchases will be subject to significant restrictions for as long as the CCP preferred shares remain outstanding. The CPP subjects the Company to executive compensation limitations included in the Emergency Economic Stabilization Act of 2008 (see note 23).

Impact of Inflation and Changing Prices

The consolidated financial statements and related data presented herein have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of the Company's operations. Unlike industrial companies, nearly all of the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a greater impact on the Company's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
AMB Financial Corp.

We have audited the consolidated statements of financial condition of AMB Financial Corp. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ending December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AMB Financial Corp. and subsidiaries at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ending December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.



February 9, 2009
Palos Hills, Illinois

AMB FINANCIAL CORP.
AND SUBSIDIARIES

Consolidated Statements of Financial Condition

	December 31,	
	2008	2007
<u>Assets</u>		
Cash and amounts due from depository institutions	\$ 2,364,292	2,555,155
Interest-bearing deposits	<u>1,435,770</u>	<u>379,853</u>
Total cash and cash equivalents	3,800,062	2,935,008
Investment securities, available for sale, at fair value (note 2)	512,267	1,718,634
Trading securities (note 3)	-	306,566
Mortgage-backed securities, available for sale, at fair value (note 4)	3,609,479	857,988
Loans receivable (net of allowance for loan losses: 2008 - \$855,330; 2007 - \$737,886) (note 5)	150,833,889	148,024,848
Real estate owned	1,322,324	750,412
Investment in limited partnership (note 7)	676,029	712,129
Stock in Federal Home Loan Bank of Indianapolis, at cost	1,965,100	1,750,900
Accrued interest receivable (note 8)	719,692	741,272
Office properties and equipment - net (note 9)	8,616,368	6,211,224
Real estate held for development (note 10)	1,197,746	1,953,953
Bank owned life insurance	3,870,882	3,740,294
Prepaid expenses and other assets (note 11)	<u>2,968,571</u>	<u>5,050,438</u>
Total assets	<u>180,092,409</u>	<u>174,753,666</u>
<u>Liabilities and Stockholders' Equity</u>		
<u>Liabilities:</u>		
Deposits (note 12)	129,212,620	118,881,547
Borrowed money (note 13)	30,883,136	35,913,019
Junior subordinated debentures (note 14)	3,000,000	3,000,000
Note payable	72,186	206,530
Advance payments by borrowers for taxes and insurance	603,501	189,225
Other liabilities (note 15)	<u>3,370,531</u>	<u>3,110,841</u>
Total liabilities	<u>167,141,974</u>	<u>161,301,162</u>
<u>Stockholders' Equity:</u>		
Preferred stock, \$.01 par value: authorized 100,000 shares; none outstanding	-	-
Common stock, \$.01 par value: authorized 1,900,000 shares; 1,686,169 shares issued and 981,638 shares outstanding at December 31, 2008 and 984,166 shares outstanding at December 31, 2007	16,837	16,862
Additional paid-in capital	11,532,449	11,530,669
Retained earnings, substantially restricted	9,107,725	9,653,588
Accumulated other comprehensive income, net of tax	54,267	12,228
Treasury stock, at cost (702,003 shares at December 31, 2008 and 2007)	<u>(7,760,843)</u>	<u>(7,760,843)</u>
Total stockholders' equity (notes 19 and 20)	<u>12,950,435</u>	<u>13,452,504</u>
Commitments and contingencies (notes 21 and 22)		
Total liabilities and stockholders' equity	<u>\$ 180,092,409</u>	<u>174,753,666</u>

See accompanying notes to consolidated financial statements.

AMB FINANCIAL CORP.
AND SUBSIDIARIES

Consolidated Statements of Income

	Years Ended December 31,		
	2008	2007	2006
Interest income:			
Interest on loans	\$ 9,176,724	9,497,334	9,553,222
Interest on mortgage-backed securities	84,930	46,381	69,566
Interest on investment securities	58,888	156,275	166,546
Interest on interest-bearing deposits	37,107	257,548	151,854
Dividends on Federal Home Loan Bank stock	93,981	79,510	85,875
Total interest income	9,451,630	10,037,048	10,027,063
Interest expense:			
Interest on deposits (note 12)	3,747,177	4,395,507	3,974,567
Interest on borrowings (note 13)	1,851,292	2,046,183	1,832,504
Total interest expense	5,598,469	6,441,690	5,807,071
Net interest income	3,853,161	3,595,358	4,219,992
Provision for loan losses (note 5)	535,000	132,789	248,146
Net interest income after provision for loan losses	3,318,161	3,462,569	3,971,846
Non-interest income:			
Loan fees and service charges	139,431	135,903	227,514
Deposit related fees	510,688	492,026	480,986
Other fee income	418,403	350,023	430,821
Rental income	107,701	148,023	139,086
Gain on sale of available for sale securities (note 2)	14,937	-	-
Unrealized (loss) gain on trading securities - net (note 3)	(35,735)	(32,709)	10,230
Gain on sale of trading securities (note 3)	9,236	-	-
Gain on sale of loans (note 6)	-	18,429	-
Loss on write-down and sale of real estate owned - net	(130,533)	(88,495)	(78,513)
Loss from limited partnership (note 7)	(36,100)	(45,000)	(40,819)
(Loss) income from write-down and sales of real estate held for development (note 10)	(410,798)	34,256	50,598
Gain on sale of other assets	23,841	-	38,851
Increase in cash surrender value of life insurance	130,588	126,022	122,666
Other income	32,440	22,308	23,318
Total non-interest income	774,099	1,160,786	1,404,738
Non-interest expense:			
Staffing costs (notes 16 and 17)	2,114,150	2,256,050	2,327,335
Advertising	201,828	164,815	250,282
Occupancy and equipment expenses (note 9)	548,607	437,521	428,362
Data processing	444,989	503,783	475,599
Professional fees	375,719	401,563	305,433
Federal deposit insurance premiums	103,761	16,593	16,028
Other	853,117	852,874	806,205
Total non-interest expense	4,642,171	4,633,199	4,609,244
(Loss) income before income taxes	(549,911)	(9,844)	767,340
Provision for income taxes (benefit) (note 18)	(269,546)	(58,284)	119,072
Net (loss) income	\$ (280,365)	48,440	648,268
(Loss) earnings per share -			
Basic	\$ (.29)	.05	.64
Diluted	\$ (.29)	.05	.64

See accompanying notes to consolidated financial statements.

**AMB FINANCIAL CORP.
AND SUBSIDIARIES**

Consolidated Statements of Changes in Stockholders' Equity

Three Years Ended December 31, 2008

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Treasury Stock</u>	<u>Total</u>
Balance at December 31, 2005	\$ <u>16,862</u>	<u>11,391,083</u>	<u>10,021,965</u>	<u>(18,870)</u>	<u>(7,266,408)</u>	<u>14,144,632</u>
Comprehensive income:						
Net income			648,268			648,268
Other comprehensive loss, net of tax:						
Unrealized holding loss during the year			<u> </u>	<u>(5,780)</u>		<u>(5,780)</u>
Total comprehensive income			648,268	(5,780)		642,488
Purchase of treasury stock (28,001 shares)					(420,505)	(420,505)
Exercise of 106,352 stock options, and reissuance of treasury stock			(391,555)		873,338	481,783
Tax benefit related to stock options exercised		78,066				78,066
Stock option compensation		50,019				50,019
Dividends declared on common stock (\$.31 per share)	<u> </u>	<u> </u>	<u>(315,315)</u>	<u> </u>	<u> </u>	<u>(315,315)</u>
Balance at December 31, 2006	<u>16,862</u>	<u>11,519,168</u>	<u>9,963,363</u>	<u>(24,650)</u>	<u>(6,813,575)</u>	<u>14,661,168</u>
Comprehensive income:						
Net income			48,440			48,440
Other comprehensive income, net of tax:						
Unrealized holding gain during the year			<u> </u>	<u>36,878</u>		<u>36,878</u>
Total comprehensive income			48,440	36,878		85,318
Purchase of treasury stock (62,184 shares)					(947,268)	(947,268)
Stock option compensation		11,501				11,501
Dividends declared on common stock (\$.35 per share)	<u> </u>	<u> </u>	<u>(358,215)</u>	<u> </u>	<u> </u>	<u>(358,215)</u>
Balance at December 31, 2007	<u>16,862</u>	<u>11,530,669</u>	<u>9,653,588</u>	<u>12,228</u>	<u>(7,760,843)</u>	<u>13,452,504</u>
Comprehensive loss:						
Net loss			(280,365)			(280,365)
Other comprehensive income, net of tax:						
Unrealized holding gain during the year				51,001		51,001
Reclassification adjustment of gains included in net loss			<u> </u>	<u>(8,962)</u>		<u>(8,962)</u>
Total comprehensive loss			(280,365)	42,039		(238,326)
Employee benefit stock retired (2,528 shares)	(25)	25				-
Stock option compensation		1,755				1,755
Dividends declared on common stock (\$.27 per share)	<u> </u>	<u> </u>	<u>(265,498)</u>	<u> </u>	<u> </u>	<u>(265,498)</u>
Balance at December 31, 2008	\$ <u>16,837</u>	<u>11,532,449</u>	<u>9,107,725</u>	<u>54,267</u>	<u>(7,760,843)</u>	<u>12,950,435</u>

See accompanying notes to consolidated financial statements.

AMB FINANCIAL CORP.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2008	2007	2006
Cash flows from operating activities:			
Net (loss) income	\$ (280,365)	48,440	648,268
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation	224,652	200,526	200,411
Stock option compensation	1,755	11,501	50,019
Amortization of premiums and accretion of discounts	2,403	13,743	16,884
Gain on sale of available for sale securities	(14,937)	-	-
Proceeds from sale of loans held for sale	-	1,389,664	-
Origination of loans held for sale	-	(1,379,711)	-
Gain on sale of loans	-	(18,429)	-
Gain on sale of other assets	(23,841)	-	(38,851)
Net loss on sale and write-down of real estate owned	130,533	88,495	78,513
Provision for loan losses	535,000	132,789	248,146
Loss from limited partnership	36,100	45,000	40,819
Increase in cash surrender value of life insurance	(130,588)	(126,022)	(122,666)
Loss (income) from write-down and sales of real estate held for development	410,798	(34,256)	(50,598)
Gain on sale of trading securities	(9,236)	-	-
Unrealized loss (gain) on trading securities	35,735	32,709	(10,230)
Proceeds from sale of trading securities	280,067	-	-
(Decrease) increase in net deferred yield adjustments on loans	(25,379)	(63,108)	101,303
Increase in prepaid and deferred income taxes	(269,546)	(58,284)	(210,928)
Decrease (increase) in accrued interest receivable	21,580	55,082	(89,793)
(Decrease) increase in accrued interest payable	(18,988)	6,852	37,054
Decrease (increase) in purchased accounts receivable	2,148,054	(704,257)	830,216
Increase in deferred compensation	19,303	36,579	71,671
Other, net	434,707	408,066	371,803
Net cash provided by operating activities	<u>3,507,807</u>	<u>85,379</u>	<u>2,172,041</u>
Cash flows from investing activities:			
Proceeds from sales of available for sale securities	214,376	-	-
Proceeds from maturities of investment securities	1,000,000	1,500,000	500,000
Purchase of investment securities	(4,917)	(8,569)	(507,965)
Purchase of mortgage-backed securities	(3,164,906)	-	-
Proceeds from repayments of mortgage-backed securities	492,923	410,349	403,294
Purchase of loans	(2,527,393)	(6,183,105)	(7,311,923)
Loan disbursements	(41,153,666)	(42,422,014)	(49,271,721)
Loan repayments	39,097,221	50,674,810	44,504,736
Proceeds from sale of real estate owned	562,731	779,066	489,396
Proceeds from redemption of Federal Home Loan Bank stock	-	-	101,700
Purchase of Federal Home Loan Bank stock	(214,200)	-	(50,000)
Proceeds from sale of real estate held for development	383,089	476,691	881,679
Purchase of real estate held for development	(37,680)	(514,837)	(1,360,021)
Proceeds from sale of other assets	54,267	-	38,851
Property and equipment expenditures, net	(2,660,222)	(3,555,318)	(665,354)
Net cash provided (for) by investing activities	<u>\$ (7,958,377)</u>	<u>1,157,073</u>	<u>(12,247,328)</u>

(Continued)

AMB FINANCIAL CORP.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2008	2007	2006
Cash flows from financing activities:			
Net increase (decrease) in deposits	\$ 10,331,073	(5,976,454)	(2,576,993)
Proceeds from borrowed money	32,300,000	16,800,000	20,000,000
Repayment of borrowed money	(37,329,883)	(15,204,570)	(6,694,167)
Proceeds from issuance of capital trust securities	-	3,000,000	-
Repayment of capital trust securities	-	(5,000,000)	-
Repayment of notes payable	(134,344)	(136,037)	(137,908)
Increase (decrease) in advance payments by borrowers for taxes and insurance	414,276	(212,742)	427,223
Proceeds from exercise of stock options	-	-	481,783
Purchase of treasury stock	-	(947,268)	(420,505)
Dividends paid on common stock	<u>(265,498)</u>	<u>(358,215)</u>	<u>(315,315)</u>
Net cash provided by (for) financing activities	<u>5,315,624</u>	<u>(8,035,286)</u>	<u>10,764,118</u>
Net change in cash and cash equivalents	865,054	(6,792,834)	688,831
Cash and cash equivalents at beginning of year	<u>2,935,008</u>	<u>9,727,842</u>	<u>9,039,011</u>
Cash and cash equivalents at end of year	<u>\$ 3,800,062</u>	<u>2,935,008</u>	<u>9,727,842</u>
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	\$ 5,617,457	6,434,838	5,770,017
Income taxes	-	-	330,000
Non-cash investing activities:			
Transfer of loans to real estate owned	\$ 1,265,176	536,860	1,063,256

See accompanying notes to consolidated financial statements.

AMB FINANCIAL CORP.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1) Summary of Significant Accounting Policies

AMB Financial Corp. (the "Company") is a Delaware corporation incorporated on November 23, 1993 for the purpose of becoming the holding company for American Savings, FSB (the "Bank"). On March 29, 1996, the Bank converted from a mutual to a stock form of ownership, and the Company completed its initial public offering, and, with a portion of the net proceeds acquired all of the issued and outstanding capital stock of the Bank (the "Conversion"). The Company is headquartered in Munster, Indiana. The Bank is a federal savings bank offering a full range of financial services to customers who are primarily located in northwest Indiana and the south and southwest Chicagoland area. The Bank is principally engaged in the business of attracting deposits from the general public and using such deposits to originate residential and commercial mortgage loans as well as other types of consumer and commercial loans.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company, and its wholly owned subsidiary, American Savings, FSB. The Bank has two inactive subsidiaries: NIFCO, Inc. and the wholly owned subsidiary of NIFCO, Inc., Ridge Management, Inc. Significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Statement of Cash Flows

For purposes of reporting cash flows, the Company has defined cash and cash equivalents to include cash on hand, amounts due from depository institutions, interest-bearing deposits in other financial institutions and federal funds sold.

Industry Segments

The Company operates principally in the banking industry through its subsidiary bank. As such, substantially all of the Company's revenues, net income, identifiable assets and capital expenditures are related to banking operations.

Investment Securities and Mortgage-Backed Securities, Available for Sale

Investment securities and mortgage-backed securities available for sale are recorded in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115 "Accounting for Certain Investments in Debt and Equity Securities". SFAS No. 115 requires the use of fair value accounting for securities available for sale or trading and retains the use of the amortized cost method for investments the Company has the positive intent and ability to hold to maturity.

SFAS No. 115 requires the classification of debt and equity securities into one of three categories: held to maturity, available for sale, or trading. Held to maturity securities are measured at amortized cost. Unrealized gains and losses on trading securities are included in income. Unrealized gains and losses on available for sale securities are excluded from income and reported net of taxes as a separate component of stockholders' equity.

The Company has currently designated all of its investment securities and mortgage-backed securities as available for sale and has recorded these investments at their current fair values. Unrealized gains and losses are recorded in a valuation account which is included, net of income taxes, as a separate component of stockholders' equity. Gains and losses on the sale of securities are determined using the specific identification method and are reflected in earnings when realized.

1) Summary of Significant Accounting Policies (continued)

Trading Securities

Trading account securities are recorded at fair value. Realized and unrealized gains and losses on trading account securities are reflected in non-interest income in the consolidated statements of income.

Loans Receivable and Related Fees

Loans are stated at the principal amount outstanding, net of loans in process, deferred yield adjustment and the allowance for losses. Interest on loans is credited to income as earned and accrued only if deemed collectible. Loans are placed on nonaccrual status when, in the opinion of management, the full timely collection of principal or interest is in doubt. As a general rule, the accrual of interest is discontinued when principal or interest payments become 90 days past due or earlier if conditions warrant. When a loan is placed on nonaccrual status, previously accrued but unpaid interest is charged against current income.

Loan origination fees and certain direct loan origination costs are being deferred in accordance with SFAS No. 91 "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases". This statement requires that loan origination fees and direct loan origination costs for a completed loan be netted and then deferred and amortized into interest income as an adjustment of yield over the contractual life of the loan.

Allowance for Loan Losses

The Company maintains an allowance for losses on loans at a level management believes is sufficient to absorb credit losses inherent in the loan portfolio. The allowance for losses on loans represents the Company's estimate of probable incurred losses in the loan portfolio at the date of each statement of condition and is based on the review of available and relevant information.

One component of the allowance for losses on loans consists of allocations for probable inherent but undetected losses within various pools of loans with similar characteristics pursuant to Statement of Financial Accounting Standards No.5, Accounting for Contingencies (SFAS 5). This component is based in part on certain loss factors applied to various loan pools as stratified by the Company. In determining the appropriate loss factors for these loan pools, management considers historical charge-offs and recoveries; levels of and trends in delinquencies, impaired loans and other classified loans; volume and type of lending and current and anticipated economic conditions.

The second component of the allowance for losses on loans consists of allocations for probable losses that have been identified related to specific borrowing relationships pursuant to Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan. This component consists of expected losses resulting in specific credit allocations for individual loans not considered within the above mentioned loan pools. The analysis on each loan involves a high degree of judgment in estimating the amount of the loss associated with the loan, including the estimation of the amount and timing of future cash flows and collateral values.

Loan losses are charged-off against the allowance, while recoveries of amounts previously charged-off are credited to the allowance. The Company assesses the adequacy of the allowance for losses on loans on a quarterly basis and adjusts the allowance for losses on loans by recording a provision for losses on loans in an amount sufficient to maintain the allowance at a level deemed appropriate by management. The evaluation of the adequacy of the allowance for losses on loans is inherently subjective, as it requires estimates that are susceptible to significant revision, as more information becomes available or as future events occur. To the extent that actual outcomes differ from management estimates, an additional provision for losses on loans could be required which could adversely affect earnings or the Company's financial position in future periods. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for losses on loans for the Bank and the carrying value of its other non-performing loans, based on information available to them at the time of their examinations. Any of these agencies could require the Bank to make additional provisions for losses on loans.

1) Summary of Significant Accounting Policies (continued)

Real Estate Owned

Real estate owned primarily includes properties acquired through foreclosure or deed in lieu of foreclosure. At foreclosure, real estate owned is recorded at the lower of the amount of the loan balance or the fair value of the real estate, less the cost to sell, through a charge to the allowance for loan losses, if necessary. Subsequent write-downs required by changes in estimated fair value or disposal expenses are charged to noninterest income. Carrying costs of these properties, net of related income, and gains or losses on the sale of their disposition are also included in current operations as other noninterest expense.

Investment in Limited Partnership

The investment in limited partnership is recorded using the equity method of accounting. The operations of the property tends to generate an aggregate net loss before income taxes, but contributes income tax credits, which lowers the Company's effective tax rate. The Company evaluates the recoverability of the carrying value on a regular basis. Losses due to impairment are recorded when it is determined that the investment no longer has the ability to recover its carrying amount.

Office Properties and Equipment

Land is carried at cost. Depreciation of office properties and equipment is accumulated on the straight line basis over estimated lives of the various assets. Useful lives are 25 to 49 years for office properties and 3 to 10 years for furniture, fixtures and equipment.

Real Estate Held for Development

Real estate properties held for development are carried at the lower of cost, including capitalized construction costs, or net realizable value. Gains and losses on individual properties are based on cash received less the cost of each individual lot. Subsequent write-downs required by changes in estimated fair value or disposal expenses are charged to noninterest income. Carrying costs of these properties, net of related income, and gains or losses on the sale of their disposition are also included in current operations as other noninterest expense.

Bank Owned Life Insurance

The Bank has purchased life insurance policies on certain of its employees. Bank owned life insurance is recorded at its cash surrender value, or the amount that can be realized.

Mortgage Servicing Rights

The Company generally retains the right to service mortgage loans sold to others. The cost allocated to mortgage servicing rights has been recognized as a separate asset and is being amortized in proportion to and over the period of estimated net servicing income, using a method that approximates a level yield and taking into consideration prepayment of the underlying loans. Mortgage servicing rights are periodically evaluated for impairment based on the fair value of those rights. Fair values are estimated using discounted cash flows based on current market rates of interest. The carrying value of the Company's mortgage serving rights, in relation to estimated servicing values, and the related amortization is reviewed by management on a quarterly basis. See Note 6 for a discussion of the current year impact on financial position and results of operations.

Income Taxes

The Company files a consolidated federal income tax return with the Bank. The provision for federal and state taxes on income is based on earnings reported in the financial statements. Deferred income taxes arise from the recognition of certain items of income and expense for tax purposes in years different from those in which they are recognized in the consolidated financial statements. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases, computed using enacted rates.

1) Summary of Significant Accounting Policies (continued)

Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of shares outstanding for the period. Stock options are regarded as future common stock and are considered in the earnings per share calculations and are the only other adjustments made in computing diluted earnings per share.

Weighted average shares used in calculating earnings per share are summarized below.

	<u>Years Ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Weighted average number of common shares outstanding used in basic EPS calculation	981,638	1,024,578	1,011,735
Add common stock equivalents for shares issuable under Stock Option Plans	-	4,523	3,394
Weighted average number of shares outstanding adjusted for common stock equivalents	<u>981,638</u>	<u>1,029,101</u>	<u>1,015,129</u>
Net (loss) income	\$ (280,365)	48,440	648,268
Basic (loss) earnings per share	\$ (.29)	.05	.64
Diluted (loss) earnings per share	\$ (.29)	.05	.64

Stock Option Plans

Prior to January 1, 2006 the Company elected to account for stock options using the intrinsic value method under the provisions of Accounting Principles Board ("APB") Opinion No. 25 and provided pro forma net income and pro forma earnings per share disclosures for employee stock option grants as if the fair value based method, defined in SFAS No. 123, "Accounting for Stock Based Compensation", had been applied. Pursuant to the guidance in these pronouncements, the Company did not record compensation expense related to stock options.

On January 1, 2006, the Company adopted Statement of Financial Standards No. 123(R), "Share-Based Payments". SFAS No. 123(R) requires that stock option awards, as well as other equity based compensation, be recognized as compensation expense in the income statement based on their fair values determined at the date of grant. The Company elected to apply SFAS No. 123(R) on a "modified prospective" method, which recognizes compensation cost (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date, and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date.

A summary of activity under the Company's stock option plans for the three years ended December 31, 2008 is as follows:

	<u>Years Ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net (loss) income, as reported	\$ (280,365)	48,440	648,268
Deduct: Total stock based employee compensation expense determined under the fair value based method, net of related tax effects	-	-	-
Pro forma net (loss) income	<u>\$ (280,365)</u>	<u>48,440</u>	<u>648,268</u>
Diluted (loss) earnings per share, as reported	\$ (.29)	.05	.64
Pro forma diluted (loss) earnings per share	\$ (.29)	.05	.64

2) Investment Securities, Available for Sale

The amortized cost and fair value of investment securities available for sale are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<u>December 31, 2008</u>				
United States Government and agency obligations	\$ <u>500,000</u>	<u>12,267</u>	<u>-</u>	<u>512,267</u>
Weighted average interest rate on debt securities	<u>5.50%</u>			
<u>December 31, 2007</u>				
United States Government and agency obligations	\$ 1,500,000	12,350	1,000	1,511,350
Marketable equity securities	<u>194,522</u>	<u>12,762</u>	<u>-</u>	<u>207,284</u>
Total	\$ <u>1,694,522</u>	<u>25,112</u>	<u>1,000</u>	<u>1,718,634</u>
Weighted average interest rate on debt securities	<u>4.81%</u>			

The contractual maturity of the above investments is summarized as follows:

	<u>December 31, 2008</u>		<u>December 31, 2007</u>	
<u>Term to Maturity</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ -	-	1,000,000	999,000
Due after one year through five years	500,000	512,267	-	-
Due after five years through ten years	-	-	500,000	512,350
Marketable equity securities	<u>-</u>	<u>-</u>	<u>194,522</u>	<u>207,284</u>
Total	\$ <u>500,000</u>	<u>512,267</u>	<u>1,694,522</u>	<u>1,718,634</u>

Proceeds from sales of investment securities, available for sale during the year ended December 31, 2008 were \$214,376 with gross gains of \$14,937 realized on those sales. There were no sales of investment securities, available for sale during the years ended December 31, 2007 and 2006. The change in net unrealized gains and losses during the current year of \$11,845, net of the tax effect of \$4,738, resulted in a \$7,107 charge to stockholders' equity.

3) Trading Securities

Trading securities are accounted for at their current fair values. The adjustment of these securities to their current fair values has resulted in a net unrealized loss of \$35,735 and \$32,709 for the years ended December 31, 2008 and 2007, and a net unrealized gain of \$10,230 for the year ended December 31, 2006. Proceeds from sales of trading securities during the year ended December 31, 2008 were \$280,067 with gross gains of \$9,236 realized on those sales. There were no sales of trading securities during the years ended December 31, 2007 and 2006.

4) Mortgage-Backed Securities, Available for Sale

The amortized cost and fair value of mortgage-backed securities available for sale are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<u>December 31, 2008</u>				
Participation Certificates:				
FHLMC - Fixed rate	\$ 1,454,644	33,605	-	1,488,249
FNMA - Adjustable rate	38,079	-	1,340	36,739
FNMA - Fixed rate	2,014,055	44,683	964	2,057,774
GNMA - Fixed rate	<u>24,523</u>	<u>2,194</u>	<u>-</u>	<u>26,717</u>
Total	\$ <u>3,531,301</u>	<u>80,482</u>	<u>2,304</u>	<u>3,609,479</u>

Weighted average interest rate 4.63%

December 31, 2007

Participation Certificates:				
FHLMC - Fixed rate	\$ 430,459	5,937	8,416	427,980
FNMA - Adjustable rate	131,999	5	1,311	130,693
FNMA - Fixed rate	219,183	-	3,428	215,755
GNMA - Fixed rate	33,140	3,143	-	36,283
Collateralized Mortgage Obligations:				
FNMA - Fixed rate	<u>46,940</u>	<u>337</u>	<u>-</u>	<u>47,277</u>
Total	\$ <u>861,721</u>	<u>9,422</u>	<u>13,155</u>	<u>857,988</u>

Weighted average interest rate 4.98%

There were no sales of mortgage-backed securities, available for sale during the years ended December 31, 2008, 2007 and 2006. The change in net unrealized gains and losses during the current year of \$81,911, net of the tax effect of \$32,765, resulted in a \$49,146 credit to stockholders' equity.

5) Loans Receivable

Loans receivable are summarized as follows:

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Mortgage loans:		
One-to-four family	\$ 106,051,525	103,102,577
Multi-family	5,687,945	6,210,287
Nonresidential	16,025,836	18,173,355
Construction	6,609,126	8,512,344
Land	<u>4,081,821</u>	<u>4,662,527</u>
Total mortgage loans	<u>138,456,253</u>	<u>140,661,090</u>
Other loans:		
Loans on deposit accounts	14,906	122,808
Equity lines of credit	6,521,119	4,842,500
Other consumer	<u>1,647,009</u>	<u>1,579,685</u>
Total other loans	<u>8,183,034</u>	<u>6,544,993</u>
Commercial business loans	<u>6,258,705</u>	<u>3,776,961</u>
Total loans receivable	<u>152,897,992</u>	<u>150,983,044</u>
Less:		
Loans in process	1,212,298	2,198,456
Net deferred yield adjustments	(3,525)	21,854
Allowance for loan losses	<u>855,330</u>	<u>737,886</u>
Loans receivable, net	<u>\$ 150,833,889</u>	<u>148,024,848</u>
Weighted average interest rate	<u>6.04%</u>	<u>6.57%</u>

Activity in the allowance for loan losses is summarized as follows:

	<u>Years Ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Balance, beginning of year	\$ 737,886	686,467	748,859
Provision for loan losses	535,000	132,789	248,146
Charge-offs	(425,092)	(331,348)	(342,411)
Recoveries	<u>7,536</u>	<u>249,978</u>	<u>31,873</u>
Balance, end of year	<u>\$ 855,330</u>	<u>737,886</u>	<u>686,467</u>

Delinquent loans (loans having monthly payments past due ninety days or more and non-accruing) at December 31, 2008 and 2007 amounted to approximately \$5,339,000 and \$2,593,000, respectively.

For the years ended December 31, 2008 and 2007, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to approximately \$236,000 and \$121,000, respectively.

Loans to directors and executive officers aggregated approximately \$1,480,000 and \$1,616,000 at December 31, 2008 and 2007, respectively. Such loans are made on substantially the same terms as those for other loan customers.

6) Loans Receivable, Held for Sale

The Bank will, from time to time, sell loans to the Federal Home Loan Bank of Indianapolis ("FHLB"). As such, the Bank may designate a portion of the loan portfolio to be classified as held for sale. The Bank did not sell any loans during the year ended December 31, 2008. During the year ended December 31, 2007, the Bank sold first mortgage loans totaling \$1,379,711 to the FHLB. The Company retains the servicing on loans sold to FHLB. Proceeds from the sale of loans during the year ended December 31, 2007 were \$1,389,664 with gains of \$9,953 realized on those sales. In addition, the Company recorded a gain of \$8,476 for the year ended December 31, 2007 on loan sales from the establishment of a mortgage servicing right asset. During the years ended December 31, 2008 and 2007, the Company amortized \$3,869 and \$526 of mortgage servicing rights against current servicing fee income.

As of December 31, 2008, there were no loans classified in this portfolio. Loans held for sale are valued at the lower of cost or fair value. Loans serviced for the FHLB amounted to \$829,449 and \$1,374,009 at December 31, 2008 and 2007.

7) Investment in Limited Partnership

The investment in limited partnership of \$676,029 and \$712,129 at December 31, 2008 and 2007 represents a 39.60% equity in Pedcor Investments 1997 - XXXI ("Pedcor"), a limited partnership organized to build, own and operate a 56 unit apartment complex. The Bank has recorded its equity in the losses of Pedcor in the amount of \$36,100, \$45,000 and \$40,819 for the years ended December 31, 2008, 2007 and 2006. Condensed financial statements for Pedcor are as follows:

<u>Condensed Statements of Financial Condition</u>	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
<u>Assets</u>		
Cash	\$ 41,381	42,297
Property and equipment	3,133,764	3,230,834
Land	112,000	112,000
Other	<u>145,210</u>	<u>140,769</u>
Total assets	<u>3,432,355</u>	<u>3,525,900</u>
<u>Liabilities and Partner's Capital</u>		
Notes payable - Bank	68,093	190,926
Notes payable - Other	1,652,057	1,850,507
Other liabilities	<u>318,389</u>	<u>299,820</u>
Total liabilities	<u>2,038,539</u>	<u>2,341,253</u>
Partners' capital	<u>1,393,816</u>	<u>1,184,647</u>
Total liabilities and partners' capital	\$ <u>3,432,355</u>	<u>3,525,900</u>

<u>Condensed Statements of Operations</u>	<u>Years Ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Total revenues	\$ 285,399	293,209	291,505
Total expenses	<u>378,094</u>	<u>397,039</u>	<u>394,582</u>
Net loss	\$ <u>(92,695)</u>	<u>(103,830)</u>	<u>(103,077)</u>

8) Accrued Interest Receivable

Accrued interest receivable is summarized as follows:

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Investment securities	\$ 27,092	37,056
Mortgage-backed securities	13,610	3,603
Loans receivable	945,725	907,063
Allowance for uncollected interest	<u>(266,735)</u>	<u>(206,450)</u>
Total accrued interest receivable	\$ <u>719,692</u>	<u>741,272</u>

9) Office Properties and Equipment

Office properties and equipment are summarized as follows:

		<u>December 31,</u>	
		<u>2008</u>	<u>2007</u>
Cost:			
Land	- Munster	\$ 40,669	40,669
	Hammond	33,300	33,300
	Dyer	300,000	300,000
	Schererville	417,595	380,345
Building	- Munster	631,026	457,773
	Hammond	167,846	319,985
	Dyer	1,785,306	1,803,735
	Schererville	5,747,628	-
	Branch construction in process	-	3,602,403
	Furniture and equipment	<u>2,134,015</u>	<u>2,133,757</u>
		<u>11,257,385</u>	<u>9,071,967</u>
Less accumulated depreciation:			
Building	- Munster	602,683	430,525
	Hammond	139,612	287,687
	Dyer	493,831	463,757
	Schererville	29,084	-
	Furniture and equipment	<u>1,375,807</u>	<u>1,678,774</u>
		<u>2,641,017</u>	<u>2,860,743</u>
Net book value		\$ <u>8,616,368</u>	<u>6,211,224</u>

Depreciation of office properties and equipment for the years ended December 31, 2008, 2007 and 2006 amounted to \$224,652, \$200,526 and \$200,411, respectively.

The Bank owns a three-story office building in Dyer, Indiana, which is one-third utilized by the Bank as its branch office location. One-third of the building is currently being leased by two third-party tenants. One of the leases commenced on October 1, 2003 and terminates on September 30, 2009 subject to two six-year lease renewal options. The current annual lease rent for this tenant is \$35,900. The remaining lease commenced on January 1, 2004 and terminates on December 31, 2008 subject to two five-year lease renewal options. This lease was renewed for a five year term through December 31, 2013. The current annual lease rent for this tenant during 2008 was \$37,963. The remaining one-third of the building was leased through May 31, 2008. This space is currently vacant as the Bank continues to seek a new tenant.

During the current year, the Bank completed construction of a three-story office building located in Schererville, Indiana, which is partially utilized by the Bank as a full service branch office. The Bank is attempting to lease the remaining portion of the building. Remaining costs of the construction project are anticipated to be less than \$100,000.

10) Real Estate Held for Development

The Company had previously acquired, in connection with an agreement with a local builder, vacant lots on which to construct single family residences in St. John and Munster, Indiana. Costs incurred as of December 31, 2008 for two completed single-family residences and four vacant lots amounted to \$1,548,449. Due to the slow down in the real estate market, the Company has decided not to build on the remaining vacant lots. All of the completed units and vacant lots are currently listed for sale. During the year ended December 31, 2008, the Company, based upon current market conditions, reduced the carrying amount of these properties by \$350,703 to a carrying value of \$1,197,746. The Company sold one single-family residence during the current year realizing proceeds of \$383,089 and recognizing a loss of \$60,095. There was one sale during the year ended December 31, 2007 resulting in income recognition of \$34,256 and two sales during the year ended December 31, 2006 resulting in income recognition of \$50,598.

11) Prepaid Expenses and Other Assets

Prepaid expenses and other assets consist of the following:

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Prepaid insurance premiums	\$ 92,391	64,729
Prepaid pension cost	101,696	220,936
Prepaid statutory trust preferred fees	147,940	154,360
Prepaid income taxes	260,124	290,103
Other prepaid expenses	89,887	83,178
Deferred federal and state income tax asset - net (a)	730,369	458,871
Purchased accounts receivable (b)	1,486,104	3,661,158
Miscellaneous	<u>60,060</u>	<u>117,103</u>
 Total	 \$ <u>2,968,571</u>	 <u>5,050,438</u>

(a) Significant components of the deferred tax assets and liabilities are as follows:

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Deferred tax assets:		
Deferred compensation	\$ 396,545	388,824
Nondeductible incentive plan expense	-	6,957
Book allowance for loan losses	354,132	296,354
Allowance for uncollected interest	97,476	82,580
Real estate write-downs	151,519	-
Other	<u>10,000</u>	<u>-</u>
 Total deferred tax assets	 <u>1,009,672</u>	 <u>774,715</u>
 Deferred tax liabilities:		
Accelerated tax depreciation	37,377	28,213
Federal Home Loan Bank stock dividend	67,258	67,258
Pension expense	40,678	88,374
Unrealized gain on trading account securities	-	39,291
Unrealized gain on securities available for sale	36,178	8,151
Other	<u>97,812</u>	<u>84,557</u>
 Total deferred tax liabilities	 <u>279,303</u>	 <u>315,844</u>
 Net deferred tax benefit	 \$ <u>730,369</u>	 <u>458,871</u>

(b) The Bank has entered into a program to purchase and manage the accounts receivable of credit-worthy merchants with required repurchase of delinquent accounts and with the merchant's repurchase obligation supported by a cash collateral reserve account. For each merchant, the Bank establishes a maximum amount of purchased receivables allowed to be outstanding at any one time. At December 31, 2008 and 2007, the unused amount was approximately \$1,903,000 and \$1,951,000, respectively.

12) Deposits

Deposit accounts are summarized as follows:

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Passbook accounts	\$ 16,979,529	16,928,984
Demand deposits and NOW accounts	18,108,185	13,332,751
Money market accounts	<u>11,819,906</u>	<u>9,992,585</u>
Subtotal	<u>46,907,620</u>	<u>40,254,320</u>
Certificates of deposit by interest rate:		
1.01 - 2.00%	11,133,392	-
2.01 - 3.00	12,048,306	566,706
3.01 - 4.00	39,175,248	10,107,045
4.01 - 5.00	15,748,375	39,148,903
5.01 - 6.00	<u>4,199,679</u>	<u>28,804,573</u>
Subtotal	<u>82,305,000</u>	<u>78,627,227</u>
Total	\$ <u>129,212,620</u>	<u>118,881,547</u>

The weighted average rate on deposit accounts at December 31, 2008 and 2007 was 2.65% and 3.58%, respectively.

The aggregate amount of certificates of deposit with a minimum denomination of \$100,000 was \$24,792,000 and \$21,614,000 at December 31, 2008 and 2007, respectively.

A summary of certificates of deposit by maturity is as follows:

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Within 12 months	\$ 62,576,330	67,630,655
12 months to 24 months	17,728,210	7,581,389
24 months to 36 months	1,682,276	2,582,338
36 months to 48 months	<u>318,184</u>	<u>832,845</u>
Total	\$ <u>82,305,000</u>	<u>78,627,227</u>

Interest expense on deposits consists of the following:

	<u>Years Ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Passbook accounts	\$ 173,519	186,033	231,534
NOW accounts	113,520	66,110	64,906
Money market accounts	311,883	305,583	368,782
Certificates of deposit	<u>3,148,255</u>	<u>3,837,781</u>	<u>3,309,345</u>
Total	\$ <u>3,747,177</u>	<u>4,395,507</u>	<u>3,974,567</u>

13) Borrowed Money

Borrowed money consists of advances from the Federal Home Loan Bank of Indianapolis and is summarized as follows:

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>December 31,</u>	
		<u>2008</u>	<u>2007</u>
January 23, 2008	4.88%	\$ -	2,000,000
February 19, 2008	5.24	-	1,000,000
April 22, 2008	3.75*	-	1,000,000
May 1, 2008	5.42	-	2,000,000
May 27, 2008	3.75*	-	2,000,000
June 23, 2008	3.75*	-	2,000,000
July 1, 2008	4.13	-	2,000,000
July 18, 2008	5.35	-	2,000,000
August 25, 2008	3.84	-	2,000,000
March 30, 2009	5.23	2,000,000	2,000,000
April 29, 2009	0.65*	500,000	-
May 15, 2009	5.93	68,093	190,926
June 8, 2009	0.65*	1,000,000	-
June 15, 2009	0.65*	1,000,000	-
August 24, 2009	5.02	1,000,000	1,000,000
August 31, 2009	4.90	2,000,000	2,000,000
January 14, 2010	3.36	6,000,000	-
August 16, 2010	5.99	1,500,000	1,500,000
September 20, 2010	5.95	1,000,000	1,000,000
December 20, 2010	4.98	2,000,000	2,000,000
March 28, 2011	5.26	3,000,000	3,000,000
May 2, 2011	3.54	3,000,000	-
December 20, 2011	3.90	1,250,000	1,250,000
December 20, 2012	4.03	1,250,000	1,250,000
July 15, 2015	5.91	597,613	611,236
November 16, 2020	6.71	<u>1,488,763</u>	<u>1,568,096</u>
Total		\$ <u>28,654,469</u>	<u>33,370,258</u>
Weighted average interest rate		<u>4.26%</u>	<u>4.87%</u>

*Variable rate

The Bank has adopted a collateral pledge agreement whereby the Bank has agreed to all times keep on hand, free of all other pledges, liens, and encumbrances, first mortgages with unpaid principal balances aggregating no less than 150% of the outstanding secured advances from the Federal Home Loan Bank of Indianapolis. At December 31, 2008, no securities were pledged for these borrowings.

Interest expense on FHLB advances amounted to \$1,460,166, \$1,650,852 and \$1,360,285 for the years ended December 31, 2008, 2007 and 2006, respectively.

13) Borrowed Money (continued)

The Company had entered into a revolving line of credit in the maximum amount of \$243,000. The outstanding balance on this line of credit as of the beginning of the year in the amount of \$242,761 was repaid March 31, 2008. Interest expense incurred on this advance amounted to \$3,353, \$18,568 and \$18,563 for the years ended December 31, 2008, 2007 and 2006, respectively.

The Company has also entered into a non-revolving line of credit in the maximum amount of \$600,000. The loan bears interest at a fixed rate of 6.75%. The Company had an outstanding balance against this line of credit of \$228,667 as of December 31, 2008. At December 31, 2008, the Company pledged a real estate held for development property with a market value of approximately \$393,000 as collateral securing the balance on the line of credit. Interest expense incurred on this advance amounted to \$37,777 and \$3,206 for the years ended December 31, 2008 and 2007, respectively.

In connection with the redemption of the junior subordinated debentures during 2007, the Company borrowed \$2,000,000 from a third-party lender at a variable rate of interest tied to the LIBOR index. The Company pledged its stock investment in the subsidiary Bank as collateral securing this advance. This advance was repaid on March 28, 2008. Interest expense incurred on this advance amounted to \$24,664 and \$101,820 for the years ended December 31, 2008 and 2007, respectively.

To repay the above \$2,000,000 advance, the Company borrowed \$1,000,000 each from two individuals (one a related party individual and one a long-time customer of the Bank). The borrowings carry a fixed rate interest of 8.00% annually and mature March 31, 2013. The Company pledged its stock investment in the subsidiary Bank as collateral securing these advances. Interest expense incurred on these advances amounted to \$122,740 for the year ended December 31, 2008.

14) Guaranteed Preferred Beneficial Interest in Junior Subordinated Debentures

In 2007, the Company issued \$3,000,000 of junior subordinated debentures (2007 debentures) to AMB Financial Statutory Trust II. The 2007 debentures are the sole assets of this trust, which issued common securities to the Company and preferred capital securities to third-party investors. The 2007 debentures bear interest at a fixed rate of 6.55%, payable quarterly in arrears, for the first five years and then bear interest at a rate of 3-month LIBOR plus 1.65% thereafter. These debentures are non-callable for five years and, after that period, are redeemable at par plus accrued unpaid interest, in whole or in part, with the prior approval of the Office of Thrift Supervision. The 2007 debentures have a scheduled maturity date of June 15, 2037. Interest expense for the years ended December 31, 2008 and 2007 amounted to \$202,592 and \$156,192, respectively.

On March 27, 2007, the Company exercised the early call on its previously issued \$5,000,000 of junior subordinated debentures (2002 debentures) issued to AMB Financial Statutory Trust I. The 2002 debentures were repaid with the proceeds of the 2007 debentures and the aforementioned \$2,000,000 advance from a third-party lender. Interest expense for the years ended December 31, 2007 and 2006 on the 2002 debentures amounted to \$115,545 and \$453,656, respectively.

15) Other Liabilities

Other liabilities include the following:

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Accrued interest on deposits	\$ 10,952	13,564
Accrued interest on borrowings	65,980	82,356
Accrued payroll and bonus	47,070	36,138
Accrued audit and accounting fees	34,690	38,620
Accrued real estate and personal property taxes	255,316	179,416
Deferred compensation (see note 16)	991,363	972,060
Outstanding bank drafts	754,760	1,131,732
Due county assessor's office for customer real estate taxes	886,339	217,535
Miscellaneous accounts payable	<u>324,061</u>	<u>439,420</u>
Total	\$ <u>3,370,531</u>	<u>3,110,841</u>

16) Benefit Plans

The Bank participates in an industry-wide, multi-employer, defined-benefit pension plan, which covers all full-time employees who have attained at least 21 years of age and completed one year of service. The Plan is administered by the Pentegra Defined Benefit Plan for Financial Institutions Fund. Calculations to determine full-funding status are made annually as of June 30. Contributions to the Plan for the Plan years ended June 30, 2009, 2008 and 2007 amounted to \$127,940, \$319,086 and \$383,246, respectively. Pension expense for the years ended December 31, 2008, 2007 and 2006 amounted to \$247,180, \$381,323, and \$407,735, respectively. Information regarding the Bank's share of assets and liabilities and plan benefit information of this plan is not available on an individual basis.

The Bank participates in the Pentegra Thrift Plan, which qualifies under Section 401(k) of the Internal Revenue Code and which covers substantially all employees. This plan calls for a discretionary contribution within specified limits and a matching Bank contribution equal to 25% of the first 6% of the employee contributions. Plan expense for the years ended December 31, 2008, 2007 and 2006 amounted to \$13,208, \$14,602 and \$15,361, respectively.

The Bank also has established three non-qualified 401(k) Plans providing participating officers of the Bank the opportunity to defer up to 6% of their salary into a tax deferred accumulation for future retirement. In addition, the Bank has also established a Director Deferral Plan. All deferred non-qualified 401(k) Plan contributions and deferred director fees are credited with interest from the Bank at the rate of 10% per year. Interest credited by the Bank to the non-qualified plans and deferred director fees on accumulated funds was \$98,103, \$95,801 and \$89,456 for the years ended December 31, 2008, 2007 and 2006, respectively.

17) Director, Officer and Employee Plans

Stock Option Plan - In conjunction with the Conversion, the stockholders of the Company approved the AMB Financial Corp. 1996 Stock Option and Incentive Plan. This is an incentive stock option plan for the benefit of the directors, officers and employees of the Company and its affiliates. This Plan authorized grants of options to purchase 210,767 shares of common stock after adjustments of stock dividends and stock splits (original authorized number of shares was 112,412, equal to 10% of the total number of shares issued in the Conversion). On October 23, 1996, 187,573 options (after adjusting for the stock dividends) were granted at \$6.80 per share, exercisable at a rate of 20% per year commencing October 23, 1997, and expiring ten years from the date of grant.

At the shareholders' meeting on April 27, 2005, the shareholders approved the AMB Financial Corp. 2005 Stock Option Plan, which authorized 40,000 stock options to become available for grant. During 2005, options for 43,120 shares were granted (23,194 options from the 1996 Plan and 19,926 from the 2005 Plan) at \$13.25 per share exercisable over four years and expiring ten years from the date of grant. The per share weighted average fair value of stock options granted during 2005 was \$3.51 on the date of grant, using a Black-Scholes option pricing model with the following historical weighted average assumptions: expected dividend yield of 2.0%, risk-free interest rate of 3.85%, expected life of 10 years and volatility of 27%.

The following is an analysis of the stock option activity for each of the years in the three year period ended December 31, 2008 and the stock options outstanding at the end of the respective periods.

<u>Options</u>	<u>Number of Options</u>	<u>Exercise Price</u>	
		<u>Per Share</u>	<u>Total</u>
Outstanding at December 31, 2005	149,472	\$ 6.80-13.25	1,294,533
Granted	0		
Exercised	(106,352)	6.80	(723,193)
Forfeited	<u>(2,810)</u>	<u>13.25</u>	<u>(37,232)</u>
Outstanding at December 31, 2006	40,310	13.25	534,108
Granted	0		
Exercised	0		
Forfeited	<u>(2,810)</u>	<u>13.25</u>	<u>(37,233)</u>
Outstanding at December 31, 2007	37,500	13.25	496,875
Granted	0		
Exercised	0		
Forfeited	<u>0</u>		
Outstanding at December 31, 2008	<u>37,500</u>	\$ <u>13.25</u>	\$ <u>496,875</u>
Exercisable at December 31, 2008	<u>37,000</u>	\$ <u>13.25</u>	\$ <u>490,250</u>
Options available for future grants at December 31, 2008	<u>25,694</u>		

As of December 31, 2008, the weighted average exercise price for options outstanding was \$13.25 with a weighted average remaining contractual life of 6.25 years.

Employee Stock Option Plan ("ESOP") - The ESOP is a qualified deferred compensation plan funded by contributions from the Bank. Contributions to the ESOP are at the discretion of the Board of Directors and are used to purchase shares of the Company's common stock. All employees over the age of 18 meeting minimum service requirements are eligible to participate in the plan. Employee contributions are not permitted. Plan contributions charged to expense totaled \$50,000 for each of the years ended December 31, 2008 and 2007. Eligible employees were vested in their proportionate share of this ESOP contribution at December 31, 2008.

18) Income Taxes

The Bank had qualified under provisions of the Internal Revenue Code, which permitted it to deduct from taxable income an allowance for bad debt, which differed from the provision for such losses charged to income. Accordingly, retained earnings at December 31, 2008 includes approximately \$1,950,000, for which no provision for income taxes has been made. If in the future this portion of retained earnings is distributed, or the Bank no longer qualifies as a bank for tax purposes, income taxes may be imposed at the then applicable rates.

The provision for income taxes consists of the following:

	<u>Years Ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current	\$ 29,979	40,392	131,828
Deferred	<u>(299,525)</u>	<u>(98,676)</u>	<u>(12,756)</u>
Total	\$ <u>(269,546)</u>	<u>(58,284)</u>	<u>119,072</u>

Deferred income tax expense consists of the following tax effects of timing differences:

	<u>Years Ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Federal Home Loan Bank stock redemption	\$ -	-	(4,022)
Depreciation	9,164	(15,631)	(708)
Deferred compensation	(7,721)	(14,632)	(28,668)
Pension	(47,696)	(22,655)	(9,354)
Book loan loss provision (in excess of)			
less than tax deduction	(57,778)	(21,767)	24,957
Real estate write-downs	(151,519)	-	-
Unrealized gain on trading account securities	(39,291)	(13,084)	4,092
Other, net	<u>(4,684)</u>	<u>(10,907)</u>	<u>947</u>
Total	\$ <u>(299,525)</u>	<u>(98,676)</u>	<u>(12,756)</u>

19) Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum total requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt correction action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to quantitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios, set forth in the table below of the total risk-based, tangible and core capital, as defined in the regulations. Management believes, as of December 31, 2008, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2008, the Bank, according to federal regulatory standards, is well-capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized, the Bank must maintain minimum total risk-based, tangible, and core ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

At December 31, 2008 and 2007, the Bank's actual capital amounts and ratios, minimum amounts and ratios required for capital adequacy purposes and minimum amounts and ratios to meet the well-capitalized criteria under prompt corrective action provision, are as follows:

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well-Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>December 31, 2008</u>						
Total capital (to risk-weighted assets)	\$ 15,952,129	12.92%	\$ 9,874,000	8.0%	\$ 12,342,000	10.0%
Tier I (core) capital (to risk-weighted assets)	15,096,799	12.23	4,937,000	4.0	7,405,000	6.0
Tier I (core) capital (to adjusted total assets)	15,096,799	8.50	7,103,000	4.0	8,878,000	5.0
Tangible capital (to adjusted total assets)	15,096,799	8.50	2,664,000	1.5	3,551,000	2.0
<u>December 31, 2007</u>						
Total capital (to risk-weighted assets)	\$ 15,891,880	14.13%	\$ 8,996,000	8.0%	\$ 11,245,000	10.0%
Tier I (core) capital (to risk-weighted assets)	15,153,994	13.48	4,498,000	4.0	6,747,000	6.0
Tier I (core) capital (to adjusted total assets)	15,153,994	8.86	6,839,000	4.0	8,549,000	5.0
Tangible capital (to adjusted total assets)	15,153,994	8.86	2,565,000	1.5	3,420,000	2.0

20) Stockholders' Equity

As part of the Conversion, the Bank established a liquidation account for the benefit of all eligible depositors who continue to maintain their deposit accounts in the Bank after conversion. In the unlikely event of a complete liquidation of the Bank, each eligible depositor will be entitled to receive a liquidation distribution from the liquidation account, in the proportionate amount of the then current adjusted balance for deposit accounts held, before distribution may be made with respect to the Bank's capital stock. The Bank may not declare or pay a cash dividend to the Company on, or repurchase any of, its capital stock if the effect thereof would cause the retained earnings of the Bank to be reduced below the amount required for the liquidation account. Except for such restrictions, the existence of the liquidation account does not restrict the use or application of retained earnings.

In addition, the Bank may not declare or pay cash dividends on or repurchase any of its shares of common stock if the effect thereof would cause stockholders' equity to be reduced below applicable regulatory capital maintenance requirements or if such declaration and payment would otherwise violate regulatory requirements.

As a result of the Company's participation in the Trouble Asset Relief Program's Capital Purchase Program, substantial restrictions have been imposed on the Company's ability to pay dividends to its stockholders. (see note 23).

21) Financial Instruments with Off-Balance Sheet Risk

The Bank is a party to various transactions with off-balance sheet risk in the normal course of business. These transactions are primarily commitments to originate loans and to extend credit on previously approved unused lines of credit. These financial instruments carry varying degrees of credit and interest-rate risk in excess of amounts recorded in the consolidated financial statements.

Commitments to originate mortgage loans of \$2,130,200 at December 31, 2008 represent amounts which the Bank plans to fund within the normal commitment period of 60 to 90 days. The mortgage loan commitments are fixed rates ranging from 5.00% to 6.50%. Because the credit worthiness of each customer is reviewed prior to extension of the commitment, the Bank adequately controls its credit risk on these commitments, as it does for loans recorded on the balance sheet. The Bank conducts all of its lending activities in the Northwest Indiana area. Management believes the Bank has a diversified loan portfolio and the concentration of lending activities in these local communities does not result in an acute dependency upon economic conditions of the lending region.

The Bank has approved, but unused, home equity lines of credit of approximately \$4,980,000 at December 31, 2008. Approval of lines of credit is based upon underwriting standards that generally do not allow total borrowings, including the line of credit, to exceed 75% of the estimated fair value of the customer's home. In addition, the Bank has approved but unused equity lines of credit on various construction and commercial projects of approximately \$2,062,000 at December 31, 2008. The Bank also has approved but unused credit card lines of credit of approximately \$1,782,000.

The Bank is currently participating with several local financial institutions in credit enhancement agreements with in-state municipalities to guarantee the repayment on municipal revenue bonds. The Bank has accepted credit risk on these various municipal projects in the amount of approximately \$916,000. These credit enhancements are in cooperation with the Federal Home Loan Bank of Indianapolis ("FHLB") and have pledging requirements as part of the qualifying collateral agreement with FHLB. Additionally, at December 31, 2008, the Bank had issued standby letters of credit totaling approximately \$100,000 to guarantee the performance of various customers to third parties.

22) Contingencies

The Bank is, from time to time, a party to certain lawsuits in the ordinary course of its business, wherein it enforces its security interest. The Bank is currently involved in litigation with Steve Tokarski, the successor personal representative of the Estate of John Wroblewski. The suit involves multiple claims, including an alleged conversion by the Bank of a restricted deposit account in the amount of \$155,000 to satisfy two delinquent loans as well as alleged negligence by the Bank in the cashing of two checks totaling approximately \$513,000. The suit claims that the Bank violated a Notice of Restriction placed on the deposit account by applying funds without proper written consents and that the Bank assisted an individual, presumably acting on behalf of John Wroblewski under a power of attorney, in misappropriating funds belonging to the Estate by cashing the checks mentioned above. The Bank intends to vigorously defend the litigation and counsel is of the opinion the Bank has strong legal and factual defenses which should permit the Bank to successfully defend the litigation. Legal counsel intends to file a Motion for Summary Judgment setting forth additional factual allegation establishing the Bank's right to apply the funds of the restricted deposit account to the then delinquent amount due the Bank. Counsel also believes that the claims are barred by the two-year statute of limitations since the Plaintiff filed the Complaint in June, 2007, more than two years after the May, 2005 withdrawal of funds or the June, 2003 presentation and cashing of checks discussed above. At this time, the outcome of this litigation is still in question, and the amount of potential loss, if any, cannot be estimated.

23) Capital Purchase Program

On January 30, 2009, pursuant to the Troubled Asset Relief Program's Capital Purchase Program ("CPP"), the Company sold and the United States Department of the Treasury (the "UST") purchased (a) 3,674 shares of Company Fixed Rate Cumulative Perpetual Preferred Stock, Series A, having a liquidation preference of \$1,000 per share (the "Series A Preferred Shares"), and (b) a warrant (the "Warrant") to purchase up to 184 shares of Company Fixed Rate Cumulative Perpetual Preferred Stock, Series B, having a liquidation preference of \$1,000 per share (the "Series B Preferred Shares").

The purchase price for the Series A Preferred Shares was \$3,674,000 and the Warrant was exercised in a cashless transaction for nominal consideration. At closing, the Company issued to the UST 3,674 Series A Preferred Shares and 184 Series B Preferred Shares. Cumulative dividends on the Series A Preferred Shares will accrue on the liquidation preference at an annual rate of 5% per year for the first five years and at an annual rate of 9% thereafter. Cumulative dividends on the Series B Preferred Shares will accrue on the liquidation preference at an annual rate of 9%.

The CPP imposes substantial restrictions on the payment of dividends on the Company's common stock and on the Company's ability to repurchase its common stock without UST approval. The Preferred Shares generally may not be redeemed for at least three years. As a result, the Company's ability to pay dividends, and/or make stock repurchases will be subject to significant restrictions for at least three years. The CPP subjects the Company to executive compensation limitations included in the Emergency Economic Stabilization Act of 2008.

24) Disclosures About the Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents: For cash and interest-bearing deposits, the carrying amount is a reasonable estimate of fair value.

Investment securities: Fair values for securities held to maturity, available for sale or held for trade are based on quoted market prices as published in financial publications or on quotes from third-party brokers.

Mortgage-backed securities: Fair values for mortgage-backed securities are based on the lower of quotes received from various third-party brokers.

Loans receivable: The fair values of fixed-rate one-to-four family residential mortgage loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions. The fair values for other fixed and adjustable rate mortgage loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms and collateral to borrowers of similar credit quality.

Accrued interest receivable and payable: The carrying value of accrued interest receivable, net of the allowance for uncollected interest, and accrued interest payable approximates fair value due to the relatively short period of time between accrual and expected realization.

Deposit liabilities: The fair value of demand deposits, savings accounts and money market deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar original maturities.

Borrowed money: Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate fair value of existing debt.

The estimated fair value of the Company's financial instruments as of December 31, 2008 and 2007 are as follows:

	<u>December 31, 2008</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:		
Cash and cash equivalents	\$ 3,800,062	3,800,062
Investment securities, available for sale	512,267	512,267
Mortgage-backed securities, available for sale	3,609,479	3,609,479
Loans receivable, gross	152,897,992	156,859,000
Accrued interest receivable	719,692	719,692
Financial liabilities:		
Deposits	\$ 129,212,620	131,137,000
Borrowed money	30,883,136	32,673,000
Accrued interest payable	76,932	76,932
	<u>December 31, 2007</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:		
Cash and cash equivalents	\$ 2,935,008	2,935,008
Investment securities, available for sale	1,718,634	1,718,634
Trading securities	306,566	306,566
Mortgage-backed securities, available for sale	857,988	857,988
Loans receivable, gross	150,983,044	151,853,000
Accrued interest receivable	741,272	741,272
Financial liabilities:		
Deposits	\$ 118,881,547	119,574,000
Borrowed money	35,913,019	36,755,000
Accrued interest payable	95,920	95,920

25) Fair Value Measurements

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157) which defines and establishes a framework for measuring fair value, and expands fair value disclosure requirements. SFAS 157 defines fair value as “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.” There are three levels of inputs into the fair value hierarchy (Level 1 being the highest priority and Level 3 being the lowest priority):

Level 1 – Unadjusted quoted prices for identical instruments in active markets;

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable; and

Level 3 – Instruments whose significant value drivers or assumptions are unobservable and that are significant to the fair value of the assets or liabilities.

A financial instrument’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following table sets forth the Company’s financial assets by level within the fair value hierarchy that were measured at fair value on a recurring basis at December 31, 2008.

	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>December 31, 2008</u>				
Securities available for sale	\$ 4,121,746	\$ -	\$ 4,121,746	\$ -
<u>December 31, 2007</u>				
Trading securities	\$ 306,566	\$ 306,566	\$ -	\$ -
Securities available for sale	2,576,622	-	2,576,622	

Trading securities are measured at fair value on a recurring basis. Where quoted market prices available, securities are classified in Level 1 of the valuation hierarchy. This includes the Company’s investments in small thrift and community bank stocks.

Securities available for sale are measured at fair value on a recurring basis. Level 2 securities are valued by a third party pricing service commonly used in the banking industry utilizing observable inputs. The pricing provider utilizes evaluated pricing models that vary based on asset class. These models incorporate available market information including quoted prices of securities with similar characteristics and, because many fixed-income securities do not trade on a daily basis, apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing. Changes in the fair market value of the Company’s available for sale securities are recorded in other comprehensive income.

25) Fair Value Measurements (continued)

The following table sets forth the Company's financial assets by level within the fair value hierarchy that were measured at fair value on a non-recurring basis at December 31, 2008.

	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>December 31, 2008</u>				
Impaired loans	\$ 4,894,973	\$ -	\$ -	\$ 4,894,973
<u>December 31, 2007</u>				
Impaired loans	\$ 2,264,982	\$ -	\$ -	\$ 2,264,982

Fair value measurements for impaired loans are performed pursuant to SFAS No. 114 and are measured on a non-recurring basis. These impaired loans were carried at fair value as estimated using current and prior appraisals, discounting factors, the borrowers' financial results, estimated cash flows generated from the property and other factors. The change in fair value of impaired loans that were valued based upon Level 3 inputs was approximately \$444,000 and \$327,000 for the years ended December 31, 2008 and 2007. These losses are not recorded directly as an adjustment to current earnings or comprehensive income, but rather as a component in determining the overall adequacy of the allowance for losses on loans. These adjustments to the estimated fair value of impaired loans may result in increases or decreases to the provision for losses on loans recorded in current earnings.

Nonfinancial assets which may be measured at fair value on a nonrecurring basis also include real estate owned and real estate held for development. SFAS 157 will apply to these fair value measurements beginning January 1, 2009.

26) Condensed Parent Company Only Financial Statements

The following condensed statement of financial condition, as of December 31, 2008 and 2007 and condensed statements of income and cash flows for the years ended December 31, 2008, 2007 and 2006 for AMB Financial Corp. should be read in conjunction with the consolidated financial statements and the notes thereto.

Condensed Statements of Financial Condition

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 619,962	22,989
Trading securities	-	306,566
Loans receivable	686,600	1,025,298
Real estate held for development	1,197,746	1,953,953
Investment in American Savings, FSB	14,363,594	14,421,176
Investment in AMB Financial Statutory Trust II	93,000	93,000
Prepaid expenses and other assets	<u>614,478</u>	<u>592,418</u>
Total assets	<u>17,575,380</u>	<u>18,415,400</u>
<u>Liabilities and Stockholders' Equity</u>		
<u>Liabilities:</u>		
Borrowed money	2,228,667	2,542,761
Junior subordinated debentures	3,093,000	3,093,000
Accrued taxes and other liabilities	<u>91,158</u>	<u>72,976</u>
Total liabilities	<u>5,412,825</u>	<u>5,708,737</u>
<u>Stockholders' Equity:</u>		
Common stock	16,837	16,862
Additional paid-in capital	10,798,836	10,797,056
Retained earnings	9,107,725	9,653,588
Treasury stock	<u>(7,760,843)</u>	<u>(7,760,843)</u>
Total stockholders' equity	<u>12,162,555</u>	<u>12,706,663</u>
Total liabilities and stockholders' equity	\$ <u>17,575,380</u>	<u>18,415,400</u>

Condensed Statements of Income

	<u>Years Ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net interest expense	\$ (327,709)	(263,269)	(285,019)
(Loss) gain on trading securities - net	(26,499)	(32,709)	10,230
(Loss) income from write-down and sales of real estate held for development	(410,798)	34,256	50,598
Other non-interest income	9,339	3,939	49,000
Non-interest expense	<u>(340,181)</u>	<u>(298,473)</u>	<u>(336,954)</u>
Net loss before income taxes and equity in earnings of subsidiaries	(1,095,848)	(556,256)	(512,145)
Benefit from income taxes	<u>434,065</u>	<u>224,801</u>	<u>213,353</u>
Net loss before equity in earnings of subsidiaries	(661,783)	(331,455)	(298,792)
Equity in earnings of subsidiaries	<u>381,418</u>	<u>379,895</u>	<u>947,060</u>
Net (loss) income	\$ <u>(280,365)</u>	<u>48,440</u>	<u>648,268</u>

Condensed Statements of Cash Flows

	<u>Years Ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating activities:			
Net (loss) income	\$ (280,365)	48,440	648,268
Equity in earnings of subsidiaries	(381,418)	(379,895)	(947,060)
Stock option compensation	1,755	11,501	50,019
Gain on sale of trading securities	(9,236)	-	-
Unrealized loss (gain) on trading securities held for trade	35,735	32,709	(10,230)
Proceeds from sale of trading securities	280,067	-	-
Decrease in deferred income on loans	-	(2,917)	(6,595)
Loss (income) from write-down and sales of real estate held for development	410,798	(34,256)	(50,598)
(Increase) decrease in prepaid taxes and other assets	(22,060)	13,402	83,755
Increase (decrease) in other liabilities	<u>18,182</u>	<u>(5,521)</u>	<u>22,378</u>
Net cash provided by (for) operating activities	<u>53,458</u>	<u>(316,537)</u>	<u>(210,063)</u>
Investing activities:			
Proceeds from sale of real estate held for development	383,089	476,691	881,679
Purchase of real estate held for development	(37,680)	(514,837)	(1,360,021)
Loan disbursements	(54,702)	(64,688)	(37,837)
Loan repayments	<u>393,400</u>	<u>300,000</u>	<u>545,000</u>
Net cash provided by investing activities	<u>684,107</u>	<u>197,166</u>	<u>28,821</u>
Financing activities:			
Proceeds from borrowed money	2,000,000	2,300,000	-
Repayment of borrowed money	(2,314,094)	-	(200,000)
Proceeds from issuance of capital trust securities	-	3,000,000	-
Repayment of capital trust securities	-	(5,000,000)	-
Proceeds from exercise of stock options	-	-	481,783
Purchase of treasury stock	-	(947,268)	(420,505)
Dividends received from Bank	439,000	800,000	800,000
Dividends paid on common stock	<u>(265,498)</u>	<u>(358,215)</u>	<u>(315,315)</u>
Net cash provided (for) by investing activities	<u>(140,592)</u>	<u>(205,483)</u>	<u>345,963</u>
Net increase (decrease) in cash and cash equivalents	596,973	(324,854)	164,721
Cash and cash equivalents at beginning of year	<u>22,989</u>	<u>347,843</u>	<u>183,122</u>
Cash and cash equivalents at end of year	\$ <u>619,962</u>	<u>22,989</u>	<u>347,843</u>

**AMB Financial Corp.
Stockholder Information**

Annual Meeting

The annual meeting of stockholders will be held at 10:30 a.m. on April 22, 2009, at the Company's corporate office, located at 8230 Hohman Avenue, Munster, Indiana.

Stock Listing

The Company's stock is traded on the OTC Bulletin Board under the symbol "AMFC.OB".

Price Range of Common Stock and Dividends

The table below shows the range of high and low sale prices and dividends paid in fiscal 2008.

<u>Quarter Ended</u>	<u>High</u>	<u>Low</u>	<u>Dividends</u>
March 31, 2008	\$13.30	\$9.50	\$0.09
June 30, 2008	\$12.00	\$10.60	\$0.09
September 30, 2008	\$10.60	\$8.00	\$0.09
December 31, 2008	\$9.00	\$1.65	\$0.00

See Note 20 of the Notes to the Consolidated Financial Statements for information regarding limitations of the Bank's ability to pay dividends to the Company.

As of December 31, 2008, the Company had 981,638 outstanding shares of common stock.

Shareholder General Inquiries

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(219) 836-5870

Transfer Agent

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**AMB Financial Corp.
Corporate Information**

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Web site ambfinancial.com

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Clement B. Knapp, Jr.
Chairman of the Board
Since 1977

Ronald W. Borto
Director since 1986

Thomas Corsiglia
Director since 2007

Donald L. Harle
Director since 1995

Michael Mellon
Director since 2004

Robert E. Tolley
Director since 1987

Louis A. Green
Director since 2008

Independent Auditors

Cobitz, VandenBerg & Fennessy
9944 S. Roberts Road Suite 202
Palos Hills, IL 60465

Officers of AMB Financial Corp.

Michael Mellon
President

Steven A. Bohn
Vice-President, Chief Financial Officer

Denise L. Knapp
Corporate Secretary

Robert B. Rossa
Vice President

Todd Williams
Vice President

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Corporate Counsel / Washington DC

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Annual and Other Reports

The Company's reports are posted on its website at ambfinancial.com.



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