

**AMB Financial Corp.
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**Financial Report For The Three and
Nine Months Ended September 30, 2010**

Note: This report is intended to be read in conjunction with our Annual Report to Stockholders for the year ended December 31, 2009, copies of which are included on this website. This report is dated September 30, 2010 and should not be read to cover any subsequent periods. We specifically disclaim any obligation to update this report even if the contents thereof should become misleading.

This report has not been prepared in accordance with Securities and Exchange Commission rules applicable to public companies and is not intended to comply with such rules.

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**AMB FINANCIAL CORP.
AND SUBSIDIARIES**

Consolidated Statements of Financial Condition

	September 30, <u>2010</u> unaudited	December 31, <u>2009</u>
<u>Assets</u>		
Cash and amounts due from depository institutions	\$ 1,604,264	\$ 3,791,899
Interest-bearing deposits	18,837,967	14,617,942
Total cash and cash equivalents	20,442,231	18,409,841
Mortgage backed securities, available for sale, at fair value	5,586,761	5,859,377
Loans receivable (net of allowance for loan losses: \$2,433,699 at September 30, 2010 and \$2,329,696 at December 31, 2009)	135,330,435	138,044,484
Real estate owned and other repossessed assets	2,329,703	3,646,612
Investment in limited partnership	612,457	640,357
Stock in Federal Home Loan Bank of Indianapolis	1,965,100	1,965,100
Accrued interest receivable	609,301	600,361
Office properties and equipment- net	9,211,051	8,755,864
Real estate held for development and sale	168,000	168,000
Bank owned life insurance	4,102,546	4,005,592
Prepaid expenses and other assets	6,242,862	5,444,522
	\$ 186,600,447	\$ 187,540,110
<u>Liabilities and Stockholders' Equity</u>		
<u>Liabilities</u>		
Deposits	\$ 150,417,046	\$ 143,345,935
Borrowed money	14,471,544	22,987,142
Guaranteed preferred beneficial interest in the Company's subordinated debentures	3,000,000	3,000,000
Advance payments by borrowers for taxes and insurance	890,652	613,031
Other liabilities	2,794,141	2,715,819
Total liabilities	\$ 171,573,383	\$ 172,661,927
<u>Stockholders' Equity</u>		
Preferred stock, \$1,000 liquidation value; authorized 100,000 shares, 3,674 shares issued at September 30, 2010 and December 31, 2009	\$ 3,735,340	\$ 3,707,737
Common Stock, \$.01 par value; authorized 1,900,000 shares; 1,683,641 shares issued and 981,638 shares outstanding at September 30, 2010 and December 31, 2009	16,837	16,837
Additional paid- in capital	11,533,912	11,533,912
Retained earnings, substantially restricted	7,377,134	7,295,323
Accumulated other comprehensive income, net of tax	124,684	85,217
Treasury stock, at cost (702,003 shares at September 30, 2010 and December 31, 2009)	(7,760,843)	(7,760,843)
Total stockholders' equity	\$ 15,027,064	\$ 14,878,183
Total liabilities and stockholders' equity	\$ 186,600,447	\$ 187,540,110

See accompanying notes to consolidated financial statements.

**AMB FINANCIAL CORP.
AND SUBSIDIARIES**
Consolidated Statements of Earnings
(Unaudited)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Interest income				
Loans	\$ 1,972,306	\$ 2,006,396	\$ 5,995,621	\$ 6,162,579
Mortgage-backed securities	46,507	50,901	147,909	136,252
Investment securities	-	6,417	-	20,167
Interest-bearing deposits	11,665	1,800	23,668	4,079
Dividends on FHLB stock	4,980	12,692	24,469	33,393
Total interest income	<u>\$ 2,035,458</u>	<u>\$ 2,078,206</u>	<u>\$ 6,191,667</u>	<u>\$ 6,356,470</u>
Interest expense				
Deposits	\$ 532,321	\$ 726,397	\$ 1,666,342	\$ 2,299,987
Borrowings	265,628	355,896	822,931	1,114,963
Total interest expense	<u>\$ 797,949</u>	<u>\$ 1,082,293</u>	<u>\$ 2,489,273</u>	<u>\$ 3,414,950</u>
Net interest income	\$ 1,237,509	\$ 995,913	\$ 3,702,394	\$ 2,941,520
Provision for loan losses	96,000	1,635,000	419,000	2,380,000
Net interest income after provision for loan losses	<u>\$ 1,141,509</u>	<u>\$ (639,087)</u>	<u>\$ 3,283,394</u>	<u>\$ 561,520</u>
Non-interest income:				
Loan fees and service charges	\$ 44,544	\$ 38,171	\$ 117,512	\$ 139,416
Deposit related fees	110,741	118,654	316,776	362,974
Other fee income	71,843	63,442	217,052	186,869
Rental Income	61,625	23,370	144,795	68,392
Gain on sale of loans	-	-	4,031	84,094
Loss from investment in limited partnership	(9,300)	(12,162)	(27,900)	(26,372)
Loss from write down and sales of real estate held for development	-	(512)	-	(25,974)
Gain (loss) on sale and write down of real estate owned and other repossessed assets	(75,266)	(337,371)	88,876	(403,192)
Increase in cash surrender value of life insurance	32,413	35,645	96,954	101,572
Other income	5,467	5,846	14,776	24,323
Total non-interest income	<u>\$ 242,067</u>	<u>\$ (64,917)</u>	<u>\$ 972,872</u>	<u>\$ 512,102</u>
Non-interest expense:				
Staffing costs	\$ 558,820	\$ 573,190	\$ 1,722,462	\$ 1,652,865
Advertising	38,449	30,116	115,682	116,973
Occupancy and equipment expense	151,532	175,022	521,903	525,809
Data processing	144,138	113,360	422,421	360,136
Professional fees	67,269	71,826	242,868	330,584
Federal deposit insurance premiums	64,256	65,578	190,226	250,977
Other operating expenses	218,755	232,081	674,410	679,787
Total non-interest expense	<u>\$ 1,243,219</u>	<u>\$ 1,261,173</u>	<u>\$ 3,889,972</u>	<u>\$ 3,917,131</u>
Income (loss) before income taxes (benefit)	\$ 140,357	\$ (1,965,177)	\$ 366,294	\$ (2,843,509)
Income tax expense (benefit)	42,756	(792,525)	106,685	(1,166,547)
Net income (loss)	<u>97,601</u>	<u>(1,172,652)</u>	<u>259,609</u>	<u>(1,676,962)</u>
Preferred stock dividends	50,065	50,065	150,195	108,474
Net income (loss) available to common shareholders	<u>\$ 47,536</u>	<u>\$ (1,222,717)</u>	<u>\$ 109,414</u>	<u>\$ (1,785,436)</u>
Earnings (loss) per share available to common shareholders:				
Basic	\$ 0.05	\$ (1.25)	\$ 0.11	\$ (1.82)
Diluted	\$ 0.05	\$ (1.25)	\$ 0.11	\$ (1.82)

See accompanying notes to consolidated financial statements.

**Consolidated Statement of Changes in Stockholders' Equity
(Unaudited)**

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 2009	\$ 3,707,737	\$ 16,837	\$ 11,533,912	\$ 7,295,323	\$ 85,217	\$ (7,760,843)	\$ 14,878,183
Comprehensive income:							
Net income				259,609			259,609
Other comprehensive income, net of income taxes:							
Unrealized holding gain during the period					39,467		39,467
Total comprehensive income							299,076
Other	27,603			(27,603)			-
Preferred stock dividends				(150,195)			(150,195)
Balance at September 30, 2010	\$ 3,735,340	\$ 16,837	\$ 11,533,912	\$ 7,377,134	\$ 124,684	\$ (7,760,843)	\$ 15,027,064

See accompanying notes to consolidated financial statements.

**AMB FINANCIAL CORP.
AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

	Nine Months Ended September 30,	
	2010	2009
	(unaudited)	
Cash flows from operating activities:		
Net income (loss)	\$ 259,609	\$ (1,676,962)
Adjustments to reconcile net income (loss) to net cash:		
Depreciation	270,533	258,961
Stock option compensation	-	1,097
Amortization of premiums and accretion of discounts	(19,764)	(64,766)
Proceeds from sale of loans held for sale	368,031	6,180,594
Origination of loans held for sale	(364,000)	(6,096,500)
Gain on sale of loans	(4,031)	(84,094)
(Gain) loss on write down and sale of real estate owned	(88,876)	403,192
Provision for loan losses	419,000	2,380,000
Loss from limited partnership	27,900	26,372
Increase in cash surrender value of life insurance	(96,954)	(101,572)
Loss from write down and sales of real estate held for development and sale	-	9,268
Increase in deferred income on loans	34,099	10,525
Increase in prepaid and deferred income taxes	(223,612)	(1,034,280)
(Increase) decrease in accrued interest receivable	(8,940)	101,122
Decrease in accrued interest payable	(20,650)	(12,341)
Increase in purchased accounts receivable	(1,200,214)	(1,479,675)
Increase in deferred compensation	17,684	16,209
Other, net	680,462	902,901
	50,277	(259,949)
Net cash provided by (for) operating activities		
Cash flows from investing activities:		
Proceeds from the early redemption of investment securities	-	500,000
Purchase of mortgage-backed securities	(1,151,829)	(2,822,743)
Proceeds from repayments of mortgage-backed securities	1,509,988	910,463
Purchase of loans	(118,711)	(1,636,819)
Loan disbursements	(28,196,349)	(27,711,189)
Loan repayments	28,690,569	35,796,626
Loan participations sold	974,000	-
Proceeds from sale of real estate owned	2,317,226	470,106
Proceeds from sale of real estate held for development	-	860,943
Purchase of real estate held for development	-	(33,527)
Property and equipment expenditures, net	(725,720)	(303,824)
	3,299,174	6,030,036
Net cash provided by investing activities		
Cash flows from financing activities:		
Net increase in deposits	7,071,111	13,035,069
Proceeds from borrowed money	23,000,000	2,000,000
Repayment of borrowed money	(31,515,598)	(9,811,338)
Repayment of note payable	-	(72,186)
Increase in advance payments by borrowers for taxes and insurance	277,621	(258,729)
Proceeds from issuance of preferred stock	-	3,674,000
Dividends paid on common stock	-	-
Dividends paid on preferred stock	(150,195)	(108,474)
	(1,317,061)	8,458,342
Net cash provided (for) by financing activities		
Net change in cash and cash equivalents	2,032,390	14,228,429
Cash and cash equivalents at beginning of period	18,409,841	3,800,062
Cash and cash equivalents at end of period	\$ 20,442,231	\$18,028,491
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 2,514,492	\$ 3,431,859
Income taxes	-	-
Non-cash investing activities:		
Transfer of loans to real estate owned	911,441	1,558,699

See accompanying notes to consolidated financial statements.

**Earnings (Loss) Per Share
(Unaudited)**

	Three Months Ended <u>September 30, 2010</u>	Three Months Ended <u>September 30, 2009</u>
Net income (loss) available to common shareholders	\$ <u>47,536</u>	<u>(1,222,717)</u>
Total weighted average common shares outstanding for basic computation	<u>981,638</u>	<u>981,638</u>
Basic income (loss) per share	\$ <u>0.05</u>	<u>(1.25)</u>
Total weighted average common shares outstanding for basic computation	981,638	981,638
Common stock equivalents due to dilutive effect of stock options	<u>0</u>	<u>0</u>
Total weighted average common shares and equivalents outstanding for diluted computation	<u>981,638</u>	<u>981,638</u>
Diluted income (loss) per share	\$ <u>0.05</u>	<u>(1.25)</u>
	Nine Months Ended <u>September 30, 2010</u>	Nine Months Ended <u>September 30, 2009</u>
Net income (loss) available to common shareholders	\$ <u>109,414</u>	<u>(1,785,436)</u>
Total weighted average common shares outstanding for basic computation	<u>981,638</u>	<u>981,638</u>
Basic income (loss) per share	\$ <u>0.11</u>	<u>(1.82)</u>
Total weighted average common shares outstanding for basic computation	981,638	981,638
Common stock equivalents due to dilutive effect of stock options	<u>0</u>	<u>0</u>
Total weighted average common shares and equivalents outstanding for diluted computation	<u>981,638</u>	<u>981,638</u>
Diluted income (loss) per share	\$ <u>0.11</u>	<u>(1.82)</u>

**AMB Financial Corp.
And Subsidiaries**

Status as Non-Reporting Company.

We are not subject to the reporting requirements of Section 13 of the Securities Exchange Act of 1934 and accordingly this report has not been prepared in accordance with applicable Securities Exchange Commission rules. This report is intended to cover the three and nine month periods ended September 30, 2010 and should not be read to cover any subsequent periods.

Notes to Consolidated Financial Statements.

The accompanying unaudited consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America and in the opinion of management contain all adjustments (all of which are normal and recurring in nature) necessary to present fairly, and not make misleading, the financial position as of September 30, 2010, the results of operations for the three and nine month periods ended September 30, 2010 and 2009 and cash flows for the nine month periods ended September 30, 2010 and 2009. 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The attached consolidated statements are those of AMB Financial Corp. (the "Company") and its consolidated subsidiaries American Savings, FSB (the "Bank"), the Bank's wholly owned subsidiary NIFCO, Inc., and the wholly owned subsidiary of NIFCO, Inc., Ridge Management, Inc.

Earnings (Loss) Per Share.

Earnings (loss) per share for the three and nine month periods ended September 30, 2010 and 2009 were determined by dividing net income (loss) for the periods by the weighted average number of both basic and diluted shares of common stock, as well as common stock equivalents outstanding. Stock options are regarded as common stock equivalents and are considered in diluted earnings per share calculations. Common stock equivalents are computed using the treasury stock method. For such periods, there was no dilutive effect of common stock equivalents.

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 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 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 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 2008 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/>.

Management's Discussion and Analysis of Financial Condition and Results of Operations

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 Financial 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 condition of the United States economy in general and in our local economy (including unemployment) in which we conduct operations;
- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board and the United States Treasury ("UST");
- our ability to manage and reduce our non-performing assets;
- 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 UST under its Capital Purchase Program ("CPP");
- future deposit premium levels which may continue to rise;
- 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 accurately estimate the value of our assets and the appropriate level of our allowance for loan losses;
- our ability to lease vacant space in our branch facilities;
- 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.

Financial Condition.

The total assets of the Company were \$186.6 million at September 30, 2010, a decrease of \$940,000 or 0.5%, from \$187.5 million at December 31, 2009. The decrease in total assets was the result of decreases in loans receivable as well as a reduction in real estate owned properties offset by an increase in cash and cash equivalents and purchased accounts receivable.

Cash and cash equivalents, primarily interest bearing deposits, totaled \$20.4 million at September 30, 2010, as compared to \$18.4 million at December 31, 2009. Interest bearing deposits can fluctuate significantly on a day-to-day basis due to cash demands, customer deposit levels, loan activity and future expected cash flows. We may maintain interest-bearing deposits at relatively high levels, as a part of our effort to manage interest rate risk during a period of historically low interest rates.

Mortgage-backed securities decreased \$273,000 to \$5.6 million at September 30, 2010, from \$5.9 million at December 31, 2009. New purchases of \$1.2 million during the period consisted of Freddie Mac and Fannie Mae, fixed rate, pass through securities. At September 30, 2010, the Company had an unrealized gain on available for sale mortgage-backed securities of \$208,000 compared to a \$142,000 unrealized gain at December 31, 2009.

Net loans receivable decreased \$2.7 million, or 2.0%, to \$135.3 million at September 30, 2010, from \$138.0 million at December 31, 2009. Loan originations and purchases totaled \$28.7 million during the nine months ended September 30, 2010, as compared to \$35.4 million during the prior year period. Included in the 2010 period were \$364,000 of single-family fixed rate loans originated for sale and subsequently sold into the secondary market as compared to \$6.1 million during the prior year period. Loan sales have slowed dramatically from the prior year as a majority of those who were able to refinance did so during 2009. These historically low fixed rate mortgage loans were sold in an effort to reduce interest rate risk. Offsetting the originations and purchases were amortization, prepayments, and sales of loans totaling \$30.0 million and \$42.0 million for the nine months ended September 30, 2010 and 2009, respectively. During the current period, the Company sold a \$1.0 million participation interest in a \$2.0 million nonresidential real estate loan to a local financial institution.

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 adverse economic conditions. To determine the appropriate level for the allowance for loan losses, management applies historical loss percentages to performing residential real estate, nonresidential real estate, consumer, and commercial business loan balances. In addition, nonperforming loans are evaluated for current collateral deficiencies. Management establishes reserves within the allowance for loan losses for loans that have collateral deficiencies. By applying the historical loss factors to the current loan balances and identifying the required collateral deficiency reserves for the period, management records loan loss provisions, which establishes the appropriate level for the allowance for loan losses.

The allowance for loan losses was \$2.4 million at September 30, 2010 and \$2.3 million at December 31, 2009. This represents a ratio of allowance for loan losses to net loans receivable of 1.77% and 1.66%, respectively, at September 30, 2010 and December 31, 2009. Impacted by current negative economic conditions, high unemployment in our market area is causing weakness in loan quality, creating additional pressure on commercial loans, consumer loans, and credit card portfolios and also impacting the performance of residential mortgage loans. Collateral values also have continued to decline.

Management believes that the allowance for loan losses is adequate at September 30, 2010. 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 quality of loans and the adequacy of the allowance for loan losses and may require the Company to recognize additions to the allowance based upon their judgments about information available to them at the time of their examinations.

The following table sets forth an analysis of the allowance for loan losses for the nine months ended September 30, 2010 and 2009.

(Dollars in thousands)

	Nine Months Ended Sept. 30, <u>2010</u>	Nine Months Ended Sept. 30, <u>2009</u>
Balance at beginning of period:.....	\$ 2,330	\$ 855
Charge-offs:		
One- to four family	(284)	(391)
Multi-family	-	(147)
Non-residential	-	-
Construction	-	-
Land.....	-	-
Consumer.....	(49)	(17)
Commercial business.....	-	(339)
Total charge-offs.....	<u>(333)</u>	<u>(894)</u>
Recoveries:		
One- to four family	16	-
Multi-family	-	-
Non-residential	-	-
Consumer.....	-	92
Commercial business.....	<u>2</u>	<u>1</u>
Total recoveries	<u>18</u>	<u>93</u>
Net charge-offs	(315)	(801)
Additions charged to operations	<u>419</u>	<u>2,380</u>
Balance at end of period	<u>\$ 2,434</u>	<u>\$ 2,434</u>
Ratio of net charge-offs during the period to average gross loans outstanding during the period.....	<u>0.23%</u>	<u>0.54%</u>
Ratio of net charge-offs during the period to average non- performing loans during the period	<u>5.38%</u>	<u>11.62%</u>

Non-performing loans totaled \$5.0 million, or 3.59% of total loans receivable at September 30, 2010, compared to \$6.8 million, or 4.82% of total loans receivable at December 31, 2009. Non-performing loans at September 30, 2010, consisted of:

- twenty-three single family mortgage loans totaling \$2.2 million, of which five loans totaling \$463,000 are located outside of the Bank's general lending area. Included in the \$2.2 million total are three single family loans totaling \$551,000 which were modified during 2009 while in a non-performing status;
- one multi-family construction loan representing a \$1.1 million participation interest in a real estate development loan for the construction of nine residential condominium units located in Chicago, Illinois. The units are substantially completed, however, there have been no sales, which has resulted in the borrower experiencing cash flow difficulties. The Company has initiated foreclosure proceedings;
- one non-residential loan representing a \$1.2 million real estate participation loan secured by a water park hotel located in Dundee, Michigan. The borrower is experiencing cash flow difficulties due to current economic conditions in Michigan resulting in the inability to maintain debt service coverage. The Company, in conjunction with other loan participants, has restructured the note and actively monitors the credit. Operating cash flows have been insufficient to support any debt service since the restructure.
- one non-residential loan totaling \$325,000 secured by an office building;
- three loans secured by undeveloped lots totaling \$169,000;
- one consumer home equity line of credit totaling \$14,000; and
- one commercial nonmortgage loan totaling \$10,000.

Not included in the above totals are four single-family loans totaling \$854,000 and one secured consumer loan totaling \$30,000, which were modified during 2009 while in a non-performing status, but have subsequently been performing in accordance with their terms for at least six months since modification.

The ratio of allowance for loan losses to non-performing loans was 48.80% at September 30, 2010, compared to 34.20% at December 31, 2009.

Net real estate owned at September 30, 2010 totaled \$2.3 million as compared to \$3.6 million at December 31, 2009. Real estate owned includes:

- twelve single family dwelling units totaling \$1.4 million;
- twenty-six one to four family vacant land parcels totaling \$750,000 of which sixteen parcels totaling \$119,000 are located near Indianapolis, Indiana; and
- one nonresidential property totaling \$203,000.

All of the real estate owned properties, with the exception of the land parcels near Indianapolis, are located within the Bank's general lending area. The real estate owned properties are valued at the lower of cost or management's estimate of net realizable value. During the nine months ended September 30, 2010, the Company recorded net real estate owned sales of \$2.3 million resulting in a gain of \$179,000. In view of the current weak real estate market, the Company incurred additional write-downs of \$90,000 in the fair value of these properties. As a result, there can be no assurance whether, when, and at what price the Company will be able to sell the remaining inventory of real estate owned.

Non-Performing Assets

The following table sets forth the amounts and categories of non-performing assets, on the date indicated, in the Company's portfolio. Loans are reviewed monthly and any loan whose collection is doubtful is placed on non-accrual status. Loans are placed on non-accrual status when principal and interest is 90 days or more past due, unless, in the judgment of management, the loan is well collateralized and in the process of collection. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income. Subsequent payments are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate collection of the loan.

	September 30,		December 31,
	2010		2009
	(Dollars in thousands)		(Dollars in thousands)
Non-accruing loans:			
One to four family	2,239		3,687
Multi-family	---		245
Non-residential	1,509		1,259
Land	169		17
Commercial business	10		60
Construction	1,046		1,390
Consumer (includes home equity)	14		153
Subtotal	4,987		6,811
Foreclosed assets:			
One to four family	1,377		1,899
Multi-family	---		---
Non-residential	203		203
Land	750		921
Construction one to four family	---		624
Consumer	---		---
Subtotal	2,330		3,647
Total non-performing assets	7,317		10,458
Non-performing assets to total assets	3.92%		5.58%

In view of today's turbulent economy, there can be no assurance that we will not experience increases in our non-performing assets or that the value of our current non-performing assets will not further decline.

The Company's investment in a limited partnership decreased \$28,000 to \$612,000 at September 30, 2010, from \$640,000 at December 31, 2009. 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.

Stock in the FHLB of Indianapolis remained unchanged totaling \$2.0 million at September 30, 2010. 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.

Office properties and equipment totaled \$9.2 million at September 30, 2010, as compared to \$8.8 million at December 31, 2009. During the nine months ended September 30, 2010, the Company incurred an additional \$532,000 of construction build out costs in conjunction with the signing of new tenant leases for its 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 under lease by four tenants.

The Company's investment in real estate development consists of two vacant lots valued at \$168,000, which are currently listed for sale.

Bank owned life insurance increased \$97,000 to \$4.1 million at September 30, 2010. The change represents an 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 increased \$798,000 to \$6.2 million at September 30, 2010. The increase was the result of a \$1.2 million increase in the Company's purchased accounts receivable program. Prepaid expenses and other assets consist primarily of a \$1.9 million deferred tax asset, prepaid FDIC insurance premiums through December 31, 2012 totaling \$662,000, and \$3.2 million of purchased accounts receivables, which involve the purchase and subsequent management of accounts receivable of credit-worthy business customers.

Deposits increased \$7.1 million to \$150.4 million at September 30, 2010 from \$143.3 million at December 31, 2009 primarily from increased certificates of deposit accounts of \$4.5 million as well as increases of \$664,000 in core demand deposits and NOW accounts (checking), \$721,000 in money market accounts and \$1.2 million in passbook accounts. At September 30, 2010, the Bank's non-certificate accounts (passbook, checking and money market accounts) comprised \$57.3 million, or 38.1% of deposits, compared to \$54.7 million, or 38.2% of deposits at December 31, 2009. Deposits at the Schererville branch office, which opened in October 2008, totaled \$10.2 million at September 30, 2010 as compared to \$7.3 million at December 31, 2009. Deposits in general increased due to successful marketing efforts as well as with the public's current preference towards FDIC insured products as compared to alternative investments, including equity markets, given the stock market turmoil of recent years.

Borrowed money, which consisted primarily of FHLB of Indianapolis advances, decreased by \$8.5 million, or 37.0%, to \$14.5 million at September 30, 2010, as compared to \$23.0 million at December 31, 2009. The Company was able to reduce borrowings due in part to the aforementioned increase in deposit balances and cash inflows from repayments of loans receivable and proceeds from the sale of

real estate owned. Borrowings from the FHLB of Indianapolis totaled \$12.5 million at September 30, 2010, compared with \$21.0 million at December 31, 2009. At September 30, 2010, the weighted average rate on the FHLB of Indianapolis borrowings increased to 4.73%, compared to 4.49% at December 31, 2009 due to the repayment of lower rate advances. During the next three month period, \$2.1 million of FHLB advances will mature at a weighted average rate of 5.05%. The weighted term to maturity of the Company's FHLB of Indianapolis borrowings at September 30, 2010 was 1.5 years.

Total stockholders' equity of the Company increased by \$149,000 to \$15.0 million, or 8.05% of total assets, at September 30, 2010, compared to \$14.9 million, or 7.93% of total assets at December 31, 2009. The increase in stockholders' equity was the result of net income totaling \$260,000 as well as an unrealized market value gain on available for sale securities during the period, net of tax, in the amount of \$39,000. Offsetting these increases were preferred stock dividends paid to the United States Treasury totaling \$150,000. The number of common shares outstanding at September 30, 2010 was 981,638 and the book value per common share (excluding book value relating to preferred stock) outstanding was \$11.50. The Bank's tangible, core and risk-based capital percentages of 8.60%, 8.60% and 14.22%, respectively, at September 30, 2010 exceeded all regulatory requirements and categorize the Bank as well capitalized under OTS guidelines.

It is not clear how serious an effect the current slowdown of the economy 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.

Results for the Quarter Ended September 30, 2010 Compared to the Quarter Ended September 30, 2009

General – Net income available to common shareholders for the quarter ended September 30, 2010 was \$48,000, or \$.05 per diluted share, an increase of \$1.3 million over the net loss applicable to common shareholders of (\$1.2 million), or (\$1.25) per diluted share, for the quarter ended September 30, 2009. Excluding payment of preferred stock dividends, net income would have been \$98,000 in the current quarter compared to a net loss of (\$1.2 million) in the prior year's quarter. Net income in the current quarter was positively impacted compared to the prior year's quarter by a \$242,000 increase in net interest income, a \$1.5 million decrease in the provision for loan losses, and a \$307,000 increase in non-interest income, offset by an \$835,000 increase in income tax expense.

Interest Income - Total interest income decreased by \$43,000, or 2.1%, to \$2.0 million for the quarter ended September 30, 2010, from \$2.1 million for the prior year's quarter. This decrease was the result of a \$3.3 million decrease in the average balance of interest-earning assets to \$161.8 million for the quarter ended September 30, 2010, as compared to \$165.1 million for the same period in 2009. The decrease in the average balance of interest-earning assets was primarily due to an \$8.3 million decrease in average loans receivable offset in part by a \$4.8 million increase in the average balance of interest-bearing deposits. The average yield earned on interest-earning assets remained unchanged at 5.03% for both quarters ended September 30, 2010 and 2009.

Interest income on loans receivable decreased \$34,000, to \$2.0 million for the quarter ending September 30, 2010, as compared to the same period in 2009. The decrease in interest income on loans was primarily the result of an \$8.3 million decline in the average balance of loans outstanding to \$134.7

million for the quarter ended September 30, 2010, as compared to \$143.0 million for the quarter ended September 30, 2009. The decrease in the average balance was due to higher principal repayments during the prior year of 2009 as well as a slow down in loan origination activity.

Interest income on mortgage-backed securities decreased \$5,000 to \$46,000 for the quarter ended September 30, 2010 as compared to the prior year's quarter, due to a 73 basis point decline in the average yield to 3.21% for the quarter ended September 30, 2010, from 3.94% for the quarter ended September 30, 2009, partially offset by a \$600,000 increase in the average balance in the portfolio. The average yield declined due to the lower rates of interest on new purchases. The average balance increased due to purchases of \$1.7 million over the most recent twelve-month period. Interest income on investment securities decreased \$6,000 as compared to the prior year's quarter due to the early redemption of the only remaining security. Interest income on interest bearing deposits increased by \$10,000 to \$12,000 for the quarter ended September 30, 2010 compared to the quarter ended September 30, 2009. The increase in interest income was the result of a \$4.8 million increase in the average balance of interest bearing deposits for the quarter ended September 30, 2010 to \$19.3 million as compared to an average balance of \$14.5 million for the same period in 2009 as well as a 19 basis point increase in the average yield to 0.24% for the quarter ended September 30, 2010, from 0.05% for the quarter ended September 30, 2009. Interest income on interest-bearing deposits continues to be negatively impacted by the historical decline in overnight rates that began in the fourth quarter of 2008. Dividend income on FHLB of Indianapolis stock decreased \$8,000 to \$5,000 for the quarter ended September 30, 2010, as the most recent dividend paid by the FHLB of Indianapolis was 1.50% as compared to 3.25% for dividend paid during the prior year's quarter.

Interest Expense – Total interest expense decreased by \$284,000, or 26.3%, to \$798,000 for the quarter ended September 30, 2010, as compared to \$1.1 million for the same period in 2009. The average cost of interest-bearing liabilities decreased 68 basis points to 1.88% for the quarter ended September 30, 2010, as compared to 2.56% for the quarter ended September 30, 2009, due to a continuing decline in short-term interest rates during the last twelve months, which enabled management to lower the rate on maturing certificates of deposit and still remain competitive. Partially offsetting this decrease was a \$1.0 million increase in the average balance of interest-bearing liabilities to \$168.5 million for the quarter ended September 30, 2010, as compared to \$167.5 million for the quarter ended September 30, 2009. The average balance of deposits outstanding increased by \$9.6 million, while the average balance of borrowings outstanding declined by \$8.6 million.

Interest expense on deposits decreased by \$194,000, or 26.7%, to \$532,000 for the quarter ended September 30, 2010, from \$726,000 for the same period in 2009. The decrease in interest expense on deposits was primarily due to a 65 basis point decrease in the average cost of deposits to 1.42% for the quarter ended September 30, 2010 from 2.07% for the prior year's quarter, offset in part by a \$9.6 million increase in the average balance of deposits outstanding. The decrease in the average cost of deposits was primarily driven by a 90 basis point decrease on certificates of deposits to an average rate of 1.98% during the quarter ended September 30, 2010, as compared to an average rate of 2.88% for the quarter ended September 30, 2009. As was the case during 2009, the majority of certificates of deposits that were scheduled to reprice continue to do so at relatively lower short-term rates.

Interest expense on borrowings decreased by \$90,000, or 25.4%, to \$266,000 for the quarter ended September 30, 2010, from \$356,000 for the same period in 2009. This decrease was the result of an \$8.6 million decrease in the average balance of borrowings to \$19.4 million for the quarter ended September

30, 2010, from \$28.0 million for the quarter ended September 30, 2009. Partially offsetting this decline was a 40 basis point increase in the average cost of borrowed funds to 5.45% for the quarter ended September 30, 2010 compared to 5.05% for the quarter ended September 30, 2009 as a result of the repayment of lower rate advances. Interest expense on FHLB of Indianapolis advances decreased to \$176,000 for the quarter ended September 30, 2010, as compared to \$266,000 for the prior year's quarter as a result of an \$8.6 million decrease in the average balance outstanding to \$14.4 million for the quarter ended September 30, 2010, from \$23.0 million for the quarter ended September 30, 2009. Partially offsetting this decline was a 27 basis point increase in the average cost of these advances to 4.87% compared to 4.60% for the prior year's quarter as a result of the aforementioned repayment of lower rate advances. Interest expense on other borrowings having an outstanding average balance of \$5.0 million remained unchanged at \$89,000 for the quarter ended September 30, 2010, as compared to the prior year's quarter.

Net Interest Income - As a result of the above changes in interest income and interest expense, net interest income increased \$242,000, or 24.3%, to \$1.2 million for the quarter ended September 30, 2010, from \$996,000 for the same period in 2009. The net interest rate spread increased 68 basis points to 3.15% for the quarter ended September 30, 2010 from 2.47% for the same period in 2009, while the net interest margin increased 65 basis points to 3.06% for the quarter ended September 30, 2010 from 2.41% for the same period in 2009. The increase in the net interest rate spread and net interest margin was due to the decreased cost of funds resulting from the current low interest rate environment for deposit accounts.

Provision for Loan Losses – The Company recorded a provision for loan losses of \$96,000 during the quarter ended September 30, 2010, as compared to \$1.6 million during the quarter ended September 30, 2009. The prior year's provision was due in part to \$795,000 of loan charge-offs during the period as well as growth in non-performing loans. Despite the decline in non-performing loans during the most recent three month period, continued provisions to the allowance were warranted due to charge-off activity and continued adverse pressures for both the local and national economies. During the quarter ended September 30, 2010, the Bank incurred charge-offs totaling \$188,000 related to six single-family residential loans that were transferred to real estate owned and \$1,000 related to one credit card receivable. Based upon management's 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 increased by \$307,000 to \$242,000 for the quarter ended September 30, 2010 compared to (\$65,000) for the quarter ended September 30, 2009. The Company recognized a (\$75,000) loss on the sale and write-down of real estate owned during the quarter ended September 30, 2010, compared to a (\$337,000) loss in the prior year's quarter. Rental income increased by \$38,000 as additional branch office space has been leased, loan fees and service charge income increased by \$6,000 due to an increase in loan activity and other fee income increased by \$8,000 primarily due to increased accounts receivable financings. These increases were offset by an \$8,000 reduction in deposit fee income primarily due to lower overdraft fee income. The Company currently has signed lease agreements for all of the available rental space at the Schererville branch office.

Non-Interest Expense – Non-interest expense declined by \$18,000, totaling \$1.2 million during the three months ended September 30, 2010. During the current quarter, staffing costs declined by \$14,000 due in part to a reduction in employee pension expenses, occupancy and equipment expenses declined

by \$23,000 due in part to successful appeals for real estate tax reductions at the Company's Munster and Dyer office locations, and a \$13,000 reduction in other operating expenses primarily due to lower expenses related to office supplies and real estate owned. These declines were partially offset by an \$8,000 increase in advertising expenses due to increased marketing campaigns and \$31,000 in data processing expenses, primarily due to the expiration of contract renewal credits received in the prior year period. FDIC insurance assessment expenses remained relatively unchanged at \$64,000 for the current quarter. In view of today's adverse economic conditions, there can be no assurance that the FDIC will not further raise its premium rate or require additional special assessments. In addition, in view of our adverse operating results in 2009 and current levels of nonperforming assets, there can be no assurance that we will not receive a ratings downgrade triggering an increase in our premium rate.

Income Taxes - The Company recorded an income tax expense of \$43,000 for the quarter ended September 30, 2010, as compared to an income tax benefit of \$793,000 for the quarter ended September 30, 2009, which was generated by the net loss recorded during the 2009 period.

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. All average balances were calculated using average daily balances and include non-accruing loans.

(Dollars in thousands)

<u>Yield Analysis</u>	<u>Three Months Ended</u> September 30, 2010			<u>Three Months Ended</u> September 30, 2009		
	<u>Average</u> <u>Balance</u>	<u>Interest</u>	<u>Average</u> <u>Yield/</u> <u>Cost</u>	<u>Average</u> <u>Balance</u>	<u>Interest</u>	<u>Average</u> <u>Yield/</u> <u>Cost</u>
Assets:						
Interest-Earning Assets:						
Loans receivable	\$134,698	\$1,972	5.85%	\$143,022	\$2,006	5.61%
Mortgage-backed securities	5,796	46	3.21	5,169	51	3.94
Investment securities	-	-	-	470	6	5.46
Interest-bearing deposits	19,341	12	0.24	14,496	2	0.05
FHLB stock	1,965	5	1.01	1,965	13	2.56
Total interest-earning assets	<u>161,800</u>	<u>2,035</u>	5.03	<u>165,122</u>	<u>2,078</u>	5.03
Non interest-earning assets	<u>25,571</u>			<u>22,769</u>		
Total assets	<u>187,371</u>			<u>187,891</u>		
Liabilities and Stockholders' Equity:						
Interest-Bearing Liabilities:						
Passbook accounts	18,644	13	0.27	17,301	13	0.30
Demand accounts	39,106	62	0.63	33,971	73	0.85
Certificate accounts	91,442	457	1.98	88,257	640	2.88
Total deposits	<u>149,192</u>	<u>532</u>	1.42	<u>139,529</u>	<u>726</u>	2.07
Borrowings	19,354	266	5.45	27,987	356	5.05
Total interest-bearing liabilities	<u>168,546</u>	<u>798</u>	1.88	<u>167,516</u>	<u>1,082</u>	2.56
Non interest-bearing liabilities	<u>3,815</u>			<u>4,683</u>		
Total liabilities	<u>172,361</u>			<u>172,199</u>		
Stockholders' equity	<u>15,010</u>			<u>15,692</u>		
Total liabilities and stockholders' equity	<u>\$187,371</u>			<u>\$187,891</u>		
Net interest income / interest rate spread		<u>\$1,237</u>	3.15%		<u>\$996</u>	2.47%
Net interest margin			3.06%			2.41%

Results for the Nine Months Ended September 30, 2010 Compared to the Nine Months Ended September 30, 2009

General – Net income available to common shareholders for the nine months ended September 30, 2010 was \$109,000, or \$.11 per diluted share, an increase of \$1.9 million over the net loss applicable to common shareholders of (\$1.8 million), or (\$1.82) per diluted share, for the same period in 2009. Excluding payment of preferred stock dividends, net income would have been \$260,000 in the current nine month period compared to a net loss of (\$1.7 million) in the prior year's period. Net income in the current nine month period was positively impacted compared to the prior year's period by a \$761,000 increase in net interest income, a \$2.0 million decrease in the provision for loan losses, and a \$461,000 increase in non-interest income, offset by a \$1.3 million increase in income tax expense.

Interest Income - Total interest income decreased by \$165,000, or 2.6%, to \$6.2 million for the nine months ended September 30, 2010, from \$6.4 million for the same period in 2009. Average interest earning assets were \$160.7 million and \$162.7 million during the comparative 2010 and 2009 periods while the average yield was 5.14% and 5.21%, respectively. The decrease in the average balance of interest-earning assets was primarily due to a \$9.2 million decrease in average loans receivable offset in part by a \$6.3 million increase in the average balance of interest-bearing deposits and a \$1.4 million increase in the average balance of mortgage backed securities outstanding. The decrease in the average yield of interest-earning assets reflects the impact of lower short and long-term interest rates, as compared to the same period one-year ago.

Interest income on loans receivable decreased \$167,000, to \$6.0 million for the nine months ending September 30, 2010, as compared to the same period in 2009. The decrease in interest income on loans was primarily the result of a \$9.2 million decline in the average balance of loans outstanding to \$136.2 million for the nine months ended September 30, 2010, as compared to \$145.4 million for the nine months ended September 30, 2009. The decrease in the average balance was due to higher principal repayments during the prior year of 2009.

Interest income on mortgage-backed securities increased \$12,000 to \$148,000 for the nine months ended September 30, 2010 as compared to the same period in 2009, due to a \$1.4 million increase in the average balance in the portfolio, offset in part by a 70 basis point decline in the average yield to 3.42% for the nine month period ended September 30, 2010 compared to 4.12% for the nine month period ended September 30, 2009. Interest income on investment securities decreased \$20,000 as compared to the prior year's period as the remaining U.S. government agency security was called during 2009. Interest income on interest bearing deposits increased by \$20,000 to \$24,000 for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009 as a result of a \$6.3 million increase in the average balance of interest bearing deposits to \$16.8 million for the nine months ended September 30, 2010 as compared to an average balance of \$10.5 million for the comparable 2009 period as well as a 14 basis point increase in the average yield to 0.19% for the nine months ended September 30, 2010, from 0.05% for the same period in 2009. Interest income on interest-bearing deposits continues to be negatively impacted by the historical decline in overnight rates that began in 2008. Dividend income on FHLB of Indianapolis stock decreased \$9,000 to \$24,000 for the nine months ended September 30, 2010. The dividend yield was 1.66% for the current nine months as compared to 2.27% for the same period in 2009.

Interest Expense – Total interest expense decreased by \$926,000, or 27.1%, to \$2.5 million for the nine months ended September 30, 2010, from \$3.4 million for the same period in 2009. Average interest-bearing liabilities increased to \$167.3 million for the nine months ended September 30, 2010 compared to \$165.3 million for the comparable 2009 period, while the average cost of interest-bearing liabilities decreased to 1.99% from 2.76% for the comparable periods.

Interest expense on deposits decreased by \$634,000, or 27.5%, to \$1.7 million for the nine months ended September 30, 2010, from \$2.3 million for the same period in 2009. The decrease in interest expense on deposits was primarily due to a 76 basis point decrease in the average cost of deposits to 1.51% from 2.27% for the comparable periods, offset in part by an \$11.7 million increase in the average balance of deposits outstanding. The decrease in the average cost of deposits was primarily driven by a 99 basis point decrease on certificates of deposits to an average rate of 2.12% during the nine months ended September 30, 2010, as compared to an average rate of 3.11% for the same period in 2009. As was the case during 2009, the majority of certificates of deposits that were scheduled to reprice continue to do so at relatively lower short-term rates.

Interest expense on borrowings decreased by \$292,000, or 26.6%, to \$823,000 for the nine months ended September 30, 2010, from \$1.1 million for the same period in 2009. This decrease was the result of a \$9.7 million decrease in the average balance of borrowings to \$20.1 million from \$29.8 million for the comparable periods. Partially offsetting this decline was a 48 basis point increase in the average cost of borrowed funds to 5.48% for the nine months ended September 30, 2010 compared to 5.00% for the 2009 period as a result of the repayment of lower rate advances. Interest expense on FHLB of Indianapolis advances decreased to \$556,000 for the nine months ended September 30, 2010, as compared to \$847,000 for the comparable period as a result of a \$9.7 million decrease in the average balance outstanding to \$15.1 million for the nine months ended September 30, 2010, from \$24.8 million for the nine months ended September 30, 2009. Partially offsetting this decline was a 36 basis point increase in the average cost of these advances to 4.93% compared to 4.57% for the prior year's period as a result of the aforementioned repayment of lower rate advances. Interest expense on other borrowings remained unchanged at \$267,000 for the comparable periods.

Net Interest Income - As a result of the above changes in interest income and interest expense, net interest income increased \$761,000, or 25.9%, to \$3.7 million for the nine months ended September 30, 2010, from \$2.9 million for the same period in 2009. The net interest rate spread increased 70 basis points to 3.15% for the nine months ended September 30, 2010 from 2.45% for the same period in 2009, while the net interest margin increased 66 basis points to 3.07% for the nine months ended September 30, 2010 from 2.41% for the same period in 2009. The increase in the net interest rate spread and net interest margin reflects lower interest expense for the comparable periods as interest rates on interest-bearing liabilities fell at a faster pace than the yields fell on interest earnings assets.

Provision for Loan Losses – The Company recorded a provision for loan losses of \$419,000 during the nine months ended September 30, 2010, as compared to \$2.4 million during the nine months ended September 30, 2009. Despite the overall improvement in non-performing loans during the current year, provisions to the allowance were warranted due charge-off activity and continued adverse pressures for both the local and national economies. During the nine months ended September 30, 2010, the Bank incurred charge-offs totaling \$333,000 of which \$292,000 related to twelve single-family residential loans and \$41,000 related to five credit card receivables. These charge-offs were offset by recoveries totaling \$18,000 of which \$16,000 related to single-family loans and \$2,000 related to a commercial

loan. The prior year's loan loss provision was due in part to an increase in loan charge-offs and increase in non-performing real estate and commercial loans as well as the ongoing decline in real estate values. Any loan loss provisions are made to maintain an allowance that is reflective of management's estimate of losses incurred in the loan portfolio. Although the Company believes that the allowance for loan losses is adequate to absorb probable incurred losses on existing loans that may become uncollectible, given the conditions of the real estate markets and economy in general there can be no assurance that the allowance will prove sufficient to cover actual loan losses in the future.

Non-Interest Income – Non-interest income increased by \$461,000 or 90.0% to \$973,000 for the nine months ended September 30, 2010 from \$512,000 for the comparable period in 2009. The Company recognized net gains of \$89,000 on the sale and write-down of real estate owned during the nine months ended September 30, 2010, compared to a \$403,000 loss in the prior year period. Losses on real estate held for development declined by \$26,000 as no losses were recorded in the current nine month period. Other fee income increased by \$30,000 primarily due to increased accounts receivable financings while rental income increased by \$76,000 as available branch office space in the Schererville office has been leased. These increases were offset by reduced gains on the sale of loans of \$80,000 due to lower origination volumes, a \$46,000 reduction in deposit fee income primarily due to lower overdraft fee income and a \$22,000 decline in loan fee income due to a reduction in loan refinance activity.

Non-Interest Expense – Non-interest expense declined by \$27,000, totaling \$3.9 million during both the nine months ended September 30, 2010 and 2009. Professional fees declined by \$88,000 for the nine months ended September 30, 2010 compared to the prior year period, primarily due to lower legal fees while federal deposit insurance premiums decreased by \$61,000 compared to the prior year period due, in part, to the \$84,000 special insurance assessment incurred during the 2009 period. These declines were offset in part by a \$70,000 increase in staffing costs due to increases in compensation and benefits, a \$62,000 increase in data processing expenses primarily due to expiration of contract renewal credits received in the prior year as well as with general increases in data processing services costs.

Income Taxes - The Company recorded an income tax expense of \$107,000 for the nine months ended September 30, 2010, as compared to an income tax benefit of \$1.2 million for the nine months ended September 30, 2009, which was generated by the net loss recorded during the 2009 period.

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. All average balances were calculated using average daily balances and include non-accruing loans.

(Dollars in thousands)

<u>Yield Analysis</u>	<u>Nine Months Ended</u> September 30, 2010			<u>Nine Months Ended</u> September 30, 2009		
	<u>Average</u> <u>Balance</u>	<u>Interest</u>	<u>Average</u> <u>Yield/</u> <u>Cost</u>	<u>Average</u> <u>Balance</u>	<u>Interest</u>	<u>Average</u> <u>Yield/</u> <u>Cost</u>
Assets:						
Interest-Earning Assets:						
Loans receivable	\$136,202	\$5,995	5.87%	\$145,426	\$6,163	5.65%
Mortgage-backed securities	5,759	148	3.42	4,408	136	4.12
Investment securities	-	-	-	497	20	5.41
Interest-bearing deposits	16,808	24	0.19	10,477	4	0.05
FHLB stock	1,965	24	1.66	1,965	33	2.27
Total interest-earning assets	<u>160,734</u>	<u>6,191</u>	5.14	<u>162,773</u>	<u>6,356</u>	5.21
Non interest-earning assets	<u>25,309</u>			<u>22,790</u>		
Total assets	<u>186,043</u>			<u>185,563</u>		
Liabilities and Stockholders' Equity:						
Interest-Bearing Liabilities:						
Passbook accounts	18,502	39	0.28	17,256	61	0.47
Demand accounts	38,024	189	0.66	31,889	227	0.95
Certificate accounts	90,713	1,438	2.12	86,390	2,012	3.11
Total deposits	<u>147,239</u>	<u>1,666</u>	1.51	<u>135,535</u>	<u>2,300</u>	2.27
Borrowings	20,081	823	5.48	29,793	1,115	5.00
Total interest-bearing liabilities	<u>167,320</u>	<u>2,489</u>	1.99	<u>165,328</u>	<u>3,415</u>	2.76
Non interest-bearing liabilities	<u>3,624</u>			<u>4,408</u>		
Total liabilities	<u>170,944</u>			<u>169,736</u>		
Stockholders' equity	<u>15,099</u>			<u>15,827</u>		
Total liabilities and stockholders' equity	<u>\$186,403</u>			<u>\$185,563</u>		
Net interest income / interest rate spread		<u>\$3,702</u>	<u>3.15%</u>		<u>\$2,941</u>	<u>2.45%</u>
Net interest margin			3.07%			2.41%

Capital Standards

As a federally chartered savings bank, the Bank's deposits are insured up to the applicable limits by the Federal Deposit Insurance Corporation ("FDIC"). The Bank is a member of the Federal Home Loan Bank ("FHLB") of Indianapolis, which is one of the twelve regional banks comprising the FHLB system. The Bank is regulated by the Office of Thrift Supervision ("OTS") and the FDIC. The Bank is further regulated by the Board of Governors of the Federal Reserve System as to reserves required to be maintained against deposits and certain other matters. Such regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities. Any change in such regulation, whether by the OTS, the FDIC or Congress could have a material impact on the Company and its operations.

Savings associations must meet three capital requirements: core and tangible capital to total assets ratios as well as a regulatory capital to total risk-weighted assets ratio.

Core Capital Requirement

The core capital requirement, or the required "leverage limit", currently requires a savings institution to maintain core capital of not less than 4% of adjusted total assets. For the Bank, core capital generally includes common stockholders' equity (including retained earnings), and minority interests in the equity accounts of fully consolidated subsidiaries, less intangibles other than certain servicing rights. Investments in and advances to subsidiaries engaged in activities not permissible for national banks are also required to be deducted in computing core total capital.

Tangible Capital Requirement

Under OTS regulation, savings institutions are required to meet a tangible capital requirement of 1.5% of adjusted total assets. Tangible capital is defined as core capital less any intangible assets, plus purchased mortgage servicing rights in an amount includable in core capital.

Risk-Based Capital Requirement

The risk-based capital requirement provides that savings institutions maintain total capital equal to not less than 8% of total risk-weighted assets. For purposes of the risk-based capital computation, total capital is defined as core capital, as defined above, plus supplementary capital, primarily general loan loss reserves (limited to a maximum of 1.25% of total risk-weighted assets.) Supplementary capital included in total capital cannot exceed 100% of core capital.

At September 30, 2010, the Bank was in compliance with all of its capital requirements as follows:

	<u>September 30, 2010</u>		<u>December 31, 2009</u>	
	<u>Amount</u>	<u>Percent of Assets</u>	<u>Amount</u>	<u>Percent of Assets</u>
Stockholders' equity of the Bank	\$ 17,106,470	9.23 %	16,586,732	8.89 %
Tangible capital	15,836,223	8.60 %	15,274,107	8.25 %
Tangible capital requirement	2,762,351	1.50	2,778,366	1.50
Excess	\$ 13,073,872	7.10 %	12,495,741	6.75 %
Core capital	15,836,223	8.60 %	15,274,107	8.25 %
Core capital requirement	7,366,270	4.00	7,408,975	4.00
Excess	\$ 8,469,953	4.60 %	7,865,132	4.25 %
Total Risk-Based Capital	16,908,486	14.22 %	16,171,661	13.09 %
Risk-based capital requirement	9,511,137	8.00	9,883,892	8.00
Excess	\$ 7,397,349	6.22 %	6,287,769	5.09 %
Total Bank Assets - Thrift Financial Report	\$ 185,427,000		186,537,000	
Adjusted Total Assets-Thrift Financial Report				
For Regulatory Capital Calculation	\$ 184,156,753		185,224,375	
Total Risk-Weighted Assets-Thrift Financial Report	\$ 118,889,213		123,548,646	

A reconciliation of stockholders' equity of the Bank for financial reporting purposes to capital available to the Bank to meet regulatory capital requirements is as follows:

	<u>September 30, 2010</u>	<u>December 31, 2009</u>
Stockholders' equity of the Bank	\$ 17,106,470	\$ 16,586,732
Regulatory capital adjustment		
For mortgage servicing rights	(3,811)	(4,428)
For deferred tax assets	(1,141,751)	(1,222,980)
For available for sale securities	(124,685)	(85,217)
Tangible and core capital	\$ 15,836,223	\$ 15,274,107
Allowable general loan loss reserves	1,072,263	897,554
Total Risk- Based Capital	\$ 16,908,486	\$ 16,171,661