

**AMB Financial Corp.
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**Financial Report For The Three
Months Ended March 31, 2009**

Note: This report is intended to be read in conjunction with our Annual Report for the year ended December 31, 2008. This report is dated March 31, 2009 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

	March 31, <u>2009</u> unaudited	December 31, <u>2008</u>
<u>Assets</u>		
Cash and amounts due from depository institutions	\$ 2,646,756	\$ 2,364,292
Interest-bearing deposits	8,109,468	1,435,770
Total cash and cash equivalents	10,756,224	3,800,062
Investment securities, available for sale, at fair value	511,500	512,267
Mortgage backed securities, available for sale, at fair value	4,090,487	3,609,479
Loans receivable (net of allowance for loan losses: \$1,094,020 at March 31, 2009 and \$855,330 at December 31, 2008)	146,149,934	150,833,889
Real estate owned and other repossessed assets	1,489,325	1,322,324
Investment in LTD Partnership	666,729	676,029
Stock in Federal Home Loan Bank of Indianapolis	1,965,100	1,965,100
Accrued interest receivable	679,480	719,692
Office properties and equipment- net	8,737,074	8,616,368
Real estate held for development and sale	361,062	1,197,746
Bank owned life insurance	3,902,535	3,870,882
Prepaid expenses and other assets	3,378,250	2,968,571
	\$ 182,687,700	\$ 180,092,409
<u>Liabilities and Stockholders' Equity</u>		
<u>Liabilities</u>		
Deposits	\$ 133,410,365	\$ 129,212,620
Borrowed money	26,154,469	30,883,136
Guaranteed preferred beneficial interest in the Company's subordinated debentures	3,000,000	3,000,000
Notes Payable	72,186	72,186
Advance payments by borrowers for taxes and insurance	1,099,373	603,501
Other liabilities	2,475,341	3,370,531
Total liabilities	\$ 166,211,734	\$ 167,141,974
<u>Stockholders' Equity</u>		
Preferred stock, \$.01 par value; authorized 100,000 shares, 3,858 shares issued and outstanding at March 31, 2009 and none outstanding at December 31, 2008	\$ 3,680,134	\$ -
Common Stock, \$.01 par value; authorized 1,900,000 shares; 1,683,641 shares issued and 981,638 shares outstanding at March 31, 2009 and December 31, 2008	16,837	16,837
Additional paid- in capital	11,532,815	11,532,449
Retained earnings, substantially restricted	8,943,880	9,107,725
Accumulated other comprehensive income, net of tax	63,143	54,267
Treasury stock, at cost (702,003 shares at March 31, 2009 and December 31, 2008)	(7,760,843)	(7,760,843)
Total stockholders' equity	\$ 16,475,966	\$ 12,950,435
Total liabilities and stockholders' equity	\$ 182,687,700	\$ 180,092,409

See accompanying notes to consolidated financial statements.

**AMB FINANCIAL CORP.
AND SUBSIDIARIES**

**Consolidated Statements of Earnings
(Unaudited)**

	<u>Three Months Ended March 31, 2009</u>	<u>Three Months Ended March 31, 2008</u>
Interest income		
Loans	\$ 2,107,425	\$ 2,398,067
Mortgage-backed securities	39,828	8,520
Investment securities	8,398	26,133
Interest-bearing deposits	994	12,705
Dividends on FHLB stock	9,691	20,963
Total interest income	<u>\$ 2,166,336</u>	<u>\$ 2,466,388</u>
Interest expense		
Deposits	\$ 809,780	\$ 1,022,195
Borrowings	393,761	503,710
Total interest expense	<u>\$ 1,203,541</u>	<u>\$ 1,525,905</u>
Net interest income	\$ 962,795	\$ 940,483
Provision for loan losses	<u>250,000</u>	<u>60,000</u>
Net interest income after provision for loan losses	<u>\$ 712,795</u>	<u>\$ 880,483</u>
Non-interest income:		
Loan fees and service charges	\$ 56,251	\$ 46,686
Deposit related fees	126,360	119,236
Other fee income	77,832	118,130
Rental Income	21,641	38,953
Unrealized gain on trading securities	-	6,430
Gain on sale of loans	42,669	-
Loss from investment in limited partnership	(9,300)	(11,250)
Loss on sales of real estate held for development	(9,269)	-
Loss on sale of real estate owned and other repossessed assets	(38,992)	-
Gain on sale of other assets	-	22,641
Increase in cash surrender value of life insurance	31,653	31,211
Other income	6,463	9,391
Total non-interest income	<u>\$ 305,308</u>	<u>\$ 381,428</u>
Non-interest expense:		
Staffing costs	\$ 549,272	\$ 555,555
Advertising	38,615	39,496
Occupancy and equipment expense	183,065	124,093
Data processing	126,683	114,043
Professional fees	146,348	97,844
Federal deposit insurance premiums	27,671	26,077
Other operating expenses	228,365	177,990
Total non-interest expense	<u>\$ 1,300,019</u>	<u>\$ 1,135,098</u>
(Loss) income before income tax (benefit) expense	\$ (281,916)	\$ 126,813
Income tax (benefit) expense	<u>(124,205)</u>	<u>37,868</u>
Net (loss) income	<u>\$ (157,711)</u>	<u>\$ 88,945</u>
(Loss) earnings per share- basic	\$ (0.16)	\$ 0.09
(Loss) earnings per share- diluted	\$ (0.16)	\$ 0.09

See accompanying notes to consolidated financial statements.

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

	Common Stock	Preferred Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 2008	\$ 16,837	\$ -	\$ 11,532,449	\$ 9,107,725	\$ 54,267	\$ (7,760,843)	\$ 12,950,435
Comprehensive loss:							
Net loss				(157,711)			(157,711)
Other comprehensive income, net of income taxes:							
Unrealized holding gain during the period					8,876		8,876
Total comprehensive loss				(157,711)	8,876		(148,835)
Issuance of preferred stock		3,465,530					3,465,530
Issuance of preferred stock warrants		208,470					208,470
Other		6,134		(6,134)			-
Stock option compensation			366				366
Balance at March 31, 2009	\$ 16,837	\$ 3,680,134	\$ 11,532,815	\$ 8,943,880	\$ 63,143	\$ (7,760,843)	\$ 16,475,966

See accompanying notes to consolidated financial statements.

**AMB FINANCIAL CORP.
AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

	Three Months Ended March 31,	
	2009	2008
	(unaudited)	
Cash flows from operating activities:		
Net (loss) income	\$ (157,711)	\$ 88,945
Adjustments to reconcile net (loss) income to net cash:		
Depreciation	84,945	48,406
Stock option compensation	366	439
Amortization of premiums and accretion of discounts	674	1,255
Gain on sale of other assets	-	(22,640)
Proceeds from sale of loans held for sale	3,951,019	-
Origination of loans held for sale	(3,908,350)	-
Gain on sale of loans	(42,669)	-
Loss on write down and sale of real estate owned	38,992	7,500
Provision for loan losses	250,000	60,000
Loss from limited partnership	9,300	11,250
Increase in cash surrender value of life insurance	(31,653)	(31,211)
Loss from write down and sales of real estate held for development and sale	9,268	-
Unrealized gain on trading securities	-	(6,430)
Increase (decrease) in deferred income on loans	6,218	(17,928)
Decrease in prepaid and deferred income taxes	114,183	187,887
Decrease in accrued interest receivable	40,212	17,448
Increase in accrued interest payable	647	10,508
Increase in purchased accounts receivable	(393,920)	(448,030)
Increase in deferred compensation	5,341	4,709
Other, net	(1,037,036)	(330,045)
	<u>(1,060,174)</u>	<u>(417,937)</u>
Net cash provided for operating activities		
Cash flows from investing activities:		
Purchase of investment securities	-	(2,162)
Purchase of mortgage-backed securities	(681,036)	-
Proceeds from repayments of mortgage-backed	214,913	152,544
Purchase of loans	(114,700)	(1,142,381)
Loan disbursements	(8,279,713)	(14,591,260)
Loan repayments	12,475,687	12,318,541
Proceeds from sale of real estate owned	140,470	-
Purchase of Federal Home Loan Bank stock	-	(214,200)
Proceeds from sale of real estate held for development	860,943	-
Purchase of real estate held for development	(33,527)	(12,588)
Property and equipment expenditures, net	(205,651)	(1,013,933)
	<u>4,377,386</u>	<u>(4,505,439)</u>
Net cash provided by (for) investing activities		
Cash flows from financing activities:		
Net increase in deposits	4,197,745	3,316,362
Proceeds from borrowed money	2,000,000	16,300,000
Repayment of borrowed money	(6,728,667)	(11,242,761)
Increase in advance payments by borrowers for taxes and insurance	495,872	541,978
Proceeds from issuance of preferred stock	3,674,000	-
	<u>3,638,950</u>	<u>8,915,579</u>
Net cash provided by financing activities		
Net change in cash and cash equivalents	6,956,162	3,992,203
Cash and cash equivalents at beginning of period	3,800,062	2,935,008
Cash and cash equivalents at end of period	<u>\$ 10,756,224</u>	<u>\$ 6,927,211</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 1,202,894	\$ 1,515,397
Income taxes	-	-
Non-cash investing activities:		
Transfer of loans to real estate owned	346,463	-

See accompanying notes to consolidated financial statements.

**Earnings Per Share
(Unaudited)**

	Three Months Ended <u>March 31, 2009</u>	Three Months Ended <u>March 31, 2008</u>
Net loss	\$ <u>(157,711)</u>	<u>88,945</u>
Total weighted average common shares outstanding for basic computation	<u>981,638</u>	<u>981,638</u>
Basic (loss) earnings per share	\$ <u>(0.16)</u>	<u>\$ 0.09</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 (loss) earnings per share	\$ <u>(0.16)</u>	<u>\$ 0.09</u>

See accompanying notes to consolidated financial statements.

**AMB Financial Corp.
And Subsidiaries**

Notes to Consolidated Financial Statements

Statement of Information Furnished.

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 contains all adjustments (all of which are normal and recurring in nature) necessary to present fairly, and not make misleading the financial position as of March 31, 2009, the results of operations for the three month periods ended March 31, 2009 and 2008 and cash flows for the three month periods ended March 31, 2009 and 2008. 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 Per Share.

Earnings per share for the three month periods ended March 31, 2009 and 2008 were determined by dividing net income for the periods by the weighted average number of both basic and diluted shares of common stock, as well as common stock equivalents outstanding. For such periods, there was no dilutive effect of common stock equivalents. 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.

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 United States Treasury (“UST”);

- 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 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 UST'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, 2013. 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.

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

Financial Condition. The total assets of the Company were \$182.7 million at March 31, 2009, an increase of \$2.6 million, or 1.4%, from \$180.1 million at December 31, 2008. The increase in assets was primarily the result of increases in cash and cash equivalents partially offset by declines in loans receivable. Asset growth was funded by a \$4.2 million increase in deposits and proceeds totaling \$3.8 million related to the sale of preferred stock. Partially offsetting these inflows was debt repayment totaling \$4.7 million.

Cash and cash equivalents totaled \$10.8 million at March 31, 2009, as compared to \$3.8 million at December 31, 2008, representing an increase of \$7.0 million. Investment securities, available for sale, remained unchanged totaling \$512,000 at March 31, 2009. The Company had an unrealized gain on available for sale investment securities of \$11,500 at March 31, 2009 compared to an unrealized gain of \$12,000 at December 31, 2008.

Mortgage-backed securities increased \$481,000 to \$4.1 million at March 31, 2009, as compared to \$3.6 million at December 31, 2008. The increase was the result of purchases totaling \$681,000, offset in part by repayments totaling \$215,000. Purchases consisted of Fannie Mae and Freddie Mac, fixed rate, pass through securities. At March 31, 2009, the Company had an unrealized gain on available for sale

mortgage-backed securities of \$94,000 compared to a \$78,000 unrealized gain at December 31, 2008.

Loans receivable decreased \$4.7 million, or 3.1%, to \$146.1 million at March 31, 2009, from \$150.8 million at December 31, 2008. Loan originations and purchases totaled \$12.3 million during the three month period ended March 31, 2009, as compared to \$15.7 million during the prior year period. Included in the 2009 total were \$3.9 million of loans originated for sale and subsequently sold into the secondary market. 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 \$16.4 million and \$12.3 million for the three month periods ended March 31, 2009 and 2008, 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 \$1.1 million at March 31, 2009, an increase of \$239,000 from the \$855,000 allowance at December 31, 2008. The Bank's allowance for loan losses to net loans receivable was 0.74% at March 31, 2009, compared to 0.56% at December 31, 2008.

Non-performing loans totaled \$6.3 million, or 4.22% of total loans receivable at March 31, 2009, compared to \$5.3 million, or 3.49% of total loans receivable at December 31, 2008. The increase in non-performing loans during the current period was primarily due to a \$1.2 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. Included in non-performing loans at March 31, 2009, were twenty-three one-to four family mortgage loans totaling \$3.1 million, of which six loans totaling \$653,000 are located out of the Bank's general lending area, the aforementioned multi family construction participation loan totaling \$1.2 million, four loans secured by undeveloped lots totaling \$948,000, three one-to four family construction loans totaling \$580,000, one multi-family mortgage loan totaling \$384,000, one second mortgage loan totaling \$5,000, one secured commercial loan totaling \$10,000, one secured auto loan totaling \$10,000, and five unsecured consumer loans totaling \$32,000. Included in the various categories above are eight loans to one borrower totaling \$2.4 million secured by developed building lots, along with completed and partially completed four unit town homes located in Merrillville, Indiana. The ratio of allowance for loan losses to non-performing loans was 17.5% at March 31, 2009, compared to 16.0% at December 31, 2008.

Management believes that the allowance for loan losses is adequate at March 31, 2009. 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.

Real estate owned and other repossessed assets increased \$167,000 to \$1.5 million at March 31, 2009 as compared to \$1.3 million at December 31, 2008. Real estate owned includes a five unit

residential/commercial parcel totaling \$325,000, vacant land parcels located near Indianapolis, Indiana totaling \$291,000, one single family residential construction parcel totaling \$291,000, one nonresidential parcel totaling \$235,000, and four single family residential parcels totaling \$309,000. All of the real estate owned properties, with the exception of the land parcels in Indianapolis, are located within the Bank's general lending area. Also included is one repossessed asset totaling \$38,000 consisting of a commercial truck. The real estate owned properties as well as other repossessed assets are valued at the lower of cost or managements' estimate of net realizable value.

The Company's investment in a limited partnership decreased \$9,000 to \$667,000 at March 31, 2009, as compared to \$676,000 at December 31, 2008. 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 March 31, 2009. 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 increased to \$8.7 million at March 31, 2009, as compared to \$8.6 million at December 31, 2008. The increase of \$121,000 was due to additional construction build out at our new 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 March 31, 2009, the Company's \$361,000 investment in real estate development projects consisted of four vacant lots. Due to the slowdown in the real estate market, the Company has decided not to build on these vacant lots. During the three month period ended March 31, 2009, the Company sold the remaining two single family residences realizing proceeds of \$861,000, while recognizing a loss of \$9,000. 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 the remaining vacant lots.

Bank owned life insurance increased \$32,000 to \$3.9 million at March 31, 2009 as compared to December 31, 2008. 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 increased \$410,000 to \$3.4 million at March 31, 2009, as compared to December 31, 2008. The increase was due in part to a \$394,000 increase in the Company's purchased accounts receivable program, which totaled \$1.9 million at March 31, 2009. The program involves the purchase and subsequent management of the accounts receivables of credit-worthy business customers.

Deposits increased \$4.2 million, or 3.2%, to \$133.4 million at March 31, 2009, from \$129.2 million at December 31, 2008. The increase in deposits was due to an increase in checking and money market deposits totaling \$739,000, an increase in passbook savings deposits of \$621,000, and an increase in certificates of deposit totaling \$2.8 million. At March 31, 2009, the Bank's non-certificate accounts

(passbook, checking and money market accounts) comprised \$48.3 million, or 36.2% of deposits, compared to \$46.9 million, or 36.3% of deposits at December 31, 2008. The increase in non-certificate deposits during the current period is attributable to customer preference for short-term liquidity. The increase in certificates of deposits is due in part to successful marketing efforts to promote certificate of deposit products.

Borrowed money, which consisted primarily of FHLB of Indianapolis advances, decreased by \$4.7 million, or 15.3%, to \$26.2 million at March 31, 2009, as compared to \$30.9 million at December 31, 2008. The Company was able to reduce borrowings due in part to the aforementioned increase in deposit balances. Borrowings from the FHLB of Indianapolis totaled \$24.2 million at March 31, 2009, compared with \$28.7 million at December 31, 2008. At March 31, 2009, the weighted average rate on the FHLB of Indianapolis borrowings increased to 4.62%, compared to a 4.26% at December 31, 2008 due to the repayment of short-term borrowings having lower interest rates. The weighted term to maturity of the Company's FHLB of Indianapolis borrowings at March 31, 2009 was 1.9 years.

Total stockholders' equity of the Company increased by \$3.5 million to \$16.5 million, or 9.02% of total assets, at March 31, 2009, compared to \$13.0 million, or 7.19% of total assets at December 31, 2008. The increase in stockholders' equity was the result of the aforementioned proceeds totaling \$3.7 million regarding the preferred stock sale to the United States Treasury as well as an unrealized market value gain on available for sale securities during the period, net of tax, in the amount of \$9,000, offset by a \$158,000 net loss for the three months ended March 31, 2009. The number of common shares outstanding at March 31, 2009 was 981,638 and the book value per common share outstanding was \$16.78. The Bank's tangible, core and risk-based capital percentages of 9.80%, 9.80% and 15.27%, respectively, at March 31, 2009 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 March 31, 2009 Compared to the Quarter Ended March 31, 2008

General – The Company recorded a net loss totaling \$158,000 for the quarter ended March 31, 2009, as compared to a net income totaling \$89,000 for the quarter ended March 31, 2008. The diluted loss per share totaled (\$0.16) for the quarter ended March 31, 2009, as compared to diluted earnings of \$0.09 per share for the quarter ended March 31, 2008. The current period loss is attributable to a \$190,000 increase in provision for loan losses, a \$76,000 decrease in non-interest income and a \$165,000 increase in non-interest expenses offset by lower income taxes of \$162,000.

Interest income - Total interest income decreased by \$300,000, or 12.2%, to \$2.2 million for the quarter ended March 31, 2009, as compared with the prior year's period. This decrease was the result of a 94 basis point decline in the average yield on interest-earning assets to 5.40% for the quarter ended March 31, 2009, as compared to 6.34% for the quarter ended March 31, 2008, offset in part by a \$5.0 million increase in the average balance of interest-earning assets to \$160.7 million for the quarter ended March 31, 2009, as compared to \$155.7 million for the quarter ended March 31, 2008.

Interest income on loans receivable decreased \$291,000, or 12.1%, to \$2.1 million for the three months ended March 31, 2009, as compared to the prior year's three month period. The decrease in interest income on loans was the result of a 74 basis point decline in the average yield to 5.67% for the quarter ended March 31, 2009, from 6.41% for the quarter ended March 31, 2008, along with a \$655,000 decrease in the average balance of loans outstanding for the quarter ended March 31, 2009, as compared to the quarter ended March 31, 2008. The decrease in the average yield on loans receivable reflects both the impact of lower yielding new originations and purchases in the current rate environment as well as lower interest rates on adjustable rate loans which are indexed to the Prime rate and have experienced a substantial decline between the periods. Also, the impact of increasing levels of non performing loans, whereby no interest is earned, has negatively impacted the average yield. The decrease in the average balance was due to principal repayments and loan sales exceeding lower volumes of new originations and purchases.

Interest income on mortgage-backed securities increased \$31,000, to \$40,000 for the quarter ended March 31, 2009, due to a \$2.9 million increase in the average balance in the portfolio. The average balance increased due to purchases of \$3.8 million between the periods. Interest income on investment securities decreased \$18,000, to \$8,000 for the quarter ended March 31, 2009, as compared to the prior year. The decrease was the result of a \$1.4 million decline in the average balance of investment securities outstanding due to maturities and sales of investment securities. Interest income on interest bearing deposits decreased by \$12,000, to \$1,000 for the quarter ended March 31, 2009, as compared to the prior year. The decrease in interest income was the result of an historical decline in overnight rates resulting in an average yield of 0.07% for the quarter ended March 31, 2009 compared to 3.28% for the quarter ended March 31, 2008, offset in part by a \$4.0 million increase in the average balance outstanding. The increase in the average balance was due in part to the aforementioned decrease in net loans receivable as well as the proceeds received from the preferred stock issuance. Dividend income on FHLB of Indianapolis stock decreased by \$11,000 to \$10,000 for the quarter ended March 31, 2009, as compared to the prior year's period. The decrease in dividend income was the result of a decrease in the average yield to 2.00% for the quarter ended March 31, 2009, from 4.63% for the quarter ended March 31, 2008. Although the FHLB of Indianapolis paid a 4.00% dividend for the quarter ended December 31, 2008, the Company reduced the amount accrued during the quarter ended March 31, 2009 due to uncertainty involving dividend rates going forward.

Interest Expense - Total interest expense decreased by \$322,000, or 21.1%, to \$1.2 million for the quarter ended March 31, 2009, as compared to the prior year's period. The cost of interest-bearing liabilities decreased 82 basis points to 2.98% for the quarter ended March 31, 2009, as compared to 3.80% for the quarter ended March 31, 2008, due primarily to declining short-term interest rates, which enabled management to lower the rate on maturing certificates of deposit and still remain competitive. Partially offsetting this decrease was a \$3.3 million increase in the average balance of interest-bearing liabilities to \$163.9 million for the quarter ended March 31, 2009, as compared to \$160.6 million for the quarter ended March 31, 2008. The increase in the average balance of interest-bearing liabilities was due to an increase in the average balance of deposits outstanding of \$12.1 million, offset by an \$8.8 million reduction in the average balance of borrowings outstanding.

Interest expense on deposits decreased by \$212,000, or 20.8%, to \$810,000 for the quarter ended March 31, 2009, as compared with the prior year's quarter, as a result of an 92 basis point decrease in the average cost of deposits to 2.50% for the quarter ended March 31, 2009, offset in part by a \$12.1 million increase in the average balance of deposits outstanding. The decrease in the average cost of deposits was

primarily impacted by a 117 basis point decrease on certificates of deposits to an average rate of 3.34% during the 2009 quarter, as compared to an average rate of 4.51% for three month period ended March 31, 2008. During 2009, the majority of certificates of deposits that were scheduled to reprice did so at significantly lower short-term rates.

Interest expense on borrowings decreased by \$110,000 to \$394,000, for the quarter ended March 31, 2009, as compared with the prior year's quarter. This decrease was the result of \$8.8 million decrease in the average balance of borrowings to \$32.3 million for the quarter ended March 31, 2009, from \$41.1 million for the quarter ended March 31, 2008, offset in part by a 4 basis point increase in the average cost of borrowed funds to 4.94% for the quarter ended March 31, 2009. Interest expense on FHLB of Indianapolis advances decreased by \$110,000 to \$303,000 for the quarter ended March 31, 2009, as compared with the prior year's period as a result of a \$8.0 million decrease in the average balance outstanding to \$27.3 million for the quarter ended March 31, 2009, from \$35.3 million for the quarter ended March 31, 2008, offset in part by an increase of 8 basis points in the average cost of these advances to 4.75% compared to 4.67% for the prior year's quarter. Interest expense on other borrowings remained unchanged totaling \$91,000 during both three month periods.

Net Interest Income - As a result of the changes in interest income and interest expense, net interest income increased \$22,000, or 2.4%, to \$963,000 for the quarter ended March 31, 2009, as compared to the prior year's quarter. The net interest rate spread decreased to 2.42% during the current quarter, as compared to 2.54% for the quarter ended March 31, 2008. The net interest margin also decreased to 2.40% in the current quarter, as compared to 2.42% a year ago. The net interest rate spread and net interest margin decreased between the periods primarily due to a larger decline in the average rate on interest earning assets as compared to the decrease in the average cost of interest-bearing liabilities.

Provision for Loan Losses - The Company recorded a provision for loan losses of \$250,000 during the current quarter, as compared to \$60,000 during the prior year's quarter. The increase was primarily due to one nonresidential real estate loan totaling \$1.2 million, which the Company classified substandard as of March 31, 2009. Although the loan is current in regards to principal and interest, a decline in the estimated market value of the collateral resulted in an increase to the provision. During the current quarter, the Bank incurred net charge-offs totaling \$11,000 due to losses incurred on credit card loans. The Company's quarterly loan loss provision is determined as a result of management's periodic assessment of the allowance for losses on loans. 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 decreased by \$76,000, or 20.0% to \$305,000 for the quarter ended March 31, 2009 compared to the prior year's quarter. The decrease was the result of a \$40,000 decline in other fee income primarily related to the Company's accounts receivable program which experienced a reduction in volume during the current quarter, a \$39,000 increase in loss on the sale of real estate owned, a \$23,000 decrease in gain on sale of other assets as no such sales occurred in the current period, and a \$17,000 decrease in rental income due to a tenant vacancy at the Company's Dyer, Indiana branch office. The decreases were offset in part by a \$43,000 increase in gain on the sale of loans, as no such gains were reported during the prior year period.

Non-Interest Expense - Non-interest expense increased by \$165,000, or 14.5%, to \$1.3 million for the quarter ended March 31, 2009 compared to the prior year's quarter due to a \$59,000 increase in occupancy and equipment expenses, relating to the opening of the Schererville branch office which occurred in October, 2008, a \$50,000 increase in other operating expenses consisting primarily of increased real estate owned and insurance expenses, and a \$49,000 increase in professional fees due to increased legal fees resulting from higher levels of non performing assets as well as costs associated with the application for TARP funds.

The Company is attempting to lease a portion of the new branch building that it will not utilize to offset some of the aforementioned occupancy 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, along with the possibility of a special FDIC deposit insurance assessment in 2009. On February 27, 2009, the FDIC published a final rule raising the current deposit insurance assessment rates to a range from 12 to 45 basis points beginning April 1, 2009. Additionally, the FDIC has issued a rule that imposes a special 5 basis point assessment on an institution's assets minus Tier 1 capital. This special assessment would total approximately \$82,000 based on our assets, less Tier 1 capital at March 31, 2009. The expense is expected to be accrued during the quarter ending June 30, 2009.

Income Taxes - The Company recorded an income tax benefit of \$124,000 for the quarter ended March 31, 2009, as compared to an income tax expense of \$38,000 for the quarter ended March 31, 2008. The current period's tax benefit was generated by the net loss recorded during the current quarter.

Capital Standards

As a federally chartered savings bank, the Bank's deposits are insured up to the applicable limits by the Federal Deposits 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 March 31, 2009, the Bank was in compliance with all of its capital requirements as follows:

	<u>March 31, 2009</u>		<u>December 31, 2008</u>	
	<u>Amount</u>	<u>Percent of Assets</u>	<u>Amount</u>	<u>Percent of Assets</u>
Stockholders' equity of the Bank	\$ 17,790,834	9.83 %	15,151,474	8.53 %
Tangible capital	17,724,968	9.80 %	15,096,799	8.50 %
Tangible capital requirement	2,714,222	1.50	2,663,525	1.50
Excess	\$ 15,010,746	8.30 %	12,433,274	7.00 %
Core capital	17,724,968	9.80 %	15,096,799	8.50 %
Core capital requirement	7,237,925	4.00	7,102,733	4.00
Excess	\$ 10,487,043	5.80 %	7,994,066	4.50 %
Core and supplementary capital	18,818,988	15.27 %	15,952,129	12.92 %
Risk-based capital requirement	9,856,354	8.00	9,873,771	8.00
Excess	\$ 8,962,634	7.27 %	6,078,358	4.92 %
Total Bank assets	\$ 181,030,547		177,669,718	
Adjusted total Bank assets	180,948,135		177,568,324	
Total risk-weighted assets	123,204,431		123,422,136	

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

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
Stockholders' equity of the Bank	\$ 17,790,834	\$ 15,151,474
Regulatory capital adjustment		
For mortgage servicing rights	(2,723)	(408)
For available for sale securities	(63,143)	(54,267)
Tangible and core capital	\$ 17,724,968	\$ 15,096,799
General loan loss reserves	1,094,020	855,330
Core and supplementary capital	\$ 18,818,988	\$ 15,952,129

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.

	March 31,		December 31,
	2009		2008
	(Dollars in thousands)		(Dollars in thousands)
Non-accruing loans:			
One to four family	3,082		3,212
Multi-family	384		379
Non-residential	---		---
Land	948		931
Commercial business	10		10
Construction	1,780		579
Consumer (includes home equity)	47		228
Subtotal	6,251		5,339
Foreclosed assets:			
One to four family	634		494
Multi-family	---		---
Non-residential	235		235
Land	291		305
Construction one to four family	291		288
Consumer	38		---
Subtotal	1,489		1,322
Other assets:			
Accounts receivable financing	109		109
Subtotal	109		109
Total non-performing assets	7,849		6,770
Total as a percentage of total assets	4.30%		3.76%

Non-performing assets increased during the quarter ended March 31, 2009, totaling \$7.8 million or 4.30% of total assets at March 31, 2009, compared to \$6.8 million, or 3.76% of total assets at December 31, 2008. The increase in non-accruing loans during the period was due to the aforementioned \$1.2 million participation interest in a real estate development loan for the construction of nine residential condominium units located in Chicago, Illinois. The non performing loan total also includes \$2.4 million related to one borrower involved in a real estate development project located in Merrillville, Indiana. The loans are comprised of \$931,000 secured by building lots, \$589,000 secured by the partial construction of one- to four family residential units, and \$886,000 secured by completed four unit residential properties. Management has considered the Company's non-performing loans in establishing its allowance for loan losses.

At March 31, 2009, the Bank had net real estate owned properties and repossessed assets totaling \$1.5 million, which was previously discussed. The Bank expects that real estate owned may increase during 2009 based on the increase in non-accrual loans during the first three months of the year. During the period ended March 31, 2009, the Company sold real estate owned realizing gross proceeds of \$140,000 while recording a loss of \$39,000. Real estate owned and other repossessed assets are valued at the lower of cost or managements' estimate of net realizable value.

Also included in non-performing assets set forth in the table above, as of March 31, 2009, was one account receivable totaling \$109,000 related to the Company's purchased accounts receivable program. The merchant to whom the Company advanced funds is no longer in business and the Company is attempting to collect amounts due through work-out arrangements directly from the third parties who owed funds to the merchant. In the event that the purchased receivables become uncollectable, the Company maintains loss mitigation insurance with a deductible amount of \$55,000, which would amount to the Company's loss exposure. At March 31, 2009, the Company maintained a loss reserve of \$40,000 related to the \$109,000 receivable.

In addition to the loans included in the non performing asset table above is \$1.2 million real estate participation loan which the Company has classified substandard as of March 31, 2009. This loan is secured by a water park hotel located in Michigan, which although is current with regard to interest payments, has seen a decline in the market value of the collateral due to current economic conditions and has not met certain cash flow targets contained in the loan agreements. The Company, in conjunction with other loan participants, continues to monitor this credit. Management has considered the Company's substandard loans in establishing its allowance for loan losses

The Company has also classified two lending relationships as special mention aggregating \$1.1 million. One of these lending relationships consists of multiple loans totaling \$682,000 secured by single family rental units located in the Company's market area whereby the borrower was experiencing cash flow difficulties. The Company has modified the notes and the borrower is now current in regards to principal and interest payments. The other loan relationship totaling \$391,000, secured primarily by a single family real estate loan was also recently modified and is now current in regards to principal and interest payments. The above modifications reflect the willingness of the Company to work with borrowers who are experiencing difficulties during the current economic recession. The Company is monitoring the above relationships.