

**AMB Financial Corp.  
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**Financial Report For The Three  
and Nine Months Ended September 30, 2008**

**Note: This report is intended to be read in conjunction with our Annual Report for the year ended December 31, 2007. This report is dated September 30, 2008 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.**

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**AMB FINANCIAL CORP.  
AND SUBSIDIARIES**

**Consolidated Statements of Financial Condition**

	September 30, <u>2008</u> unaudited	December 31, <u>2007</u>
<u>Assets</u>		
Cash and amounts due from depository institutions	\$ 2,417,799	\$ 2,555,155
Interest-bearing deposits	2,144,807	379,853
Total cash and cash equivalents	4,562,606	2,935,008
Investment securities, available for sale, at fair value	507,252	1,718,634
Trading securities	-	306,566
Mortgage backed securities, available for sale, at fair value	2,446,930	857,988
Loans receivable (net of allowance for loan losses: \$894,166 at September 30, 2008 and \$737,886 at December 31, 2007)	147,330,581	148,024,848
Real estate owned	1,142,602	750,412
Investment in LTD Partnership	678,379	712,129
Stock in Federal Home Loan Bank of Indianapolis	1,965,100	1,750,900
Accrued interest receivable	733,261	741,272
Office properties and equipment- net	8,352,027	6,211,224
Real estate held for development and sale	1,671,399	1,953,953
Bank owned life insurance	3,837,224	3,740,294
Prepaid expenses and other assets	5,204,806	5,050,438
Total assets	\$ 178,432,167	\$ 174,753,666
<u>Liabilities and Stockholders' Equity</u>		
<u>Liabilities</u>		
Deposits	\$ 124,173,515	\$ 118,881,547
Borrowed money	33,833,802	35,913,019
Guaranteed preferred beneficial interest in the Company's subordinated debentures	3,000,000	3,000,000
Notes Payable	72,186	206,530
Advance payments by borrowers for taxes and insurance	1,661,066	189,225
Other liabilities	2,725,633	3,110,841
Total liabilities	\$ 165,466,202	\$ 161,301,162
<u>Stockholders' Equity</u>		
Preferred stock, \$.01 par value; authorized 100,000 shares; none outstanding	\$ -	\$ -
Common Stock, \$.01 par value; authorized 1,900,000 shares; 1,683,641 shares issued and 981,638 and 984,166 shares outstanding at September 30, 2008 and December 31, 2007	16,837	16,862
Additional paid- in capital	11,532,010	11,530,669
Retained earnings, substantially restricted	9,187,648	9,653,588
Accumulated other comprehensive (loss) income, net of tax	(9,687)	12,228
Treasury stock, at cost (702,003 shares at September 30, 2008 and December 31, 2007)	(7,760,843)	(7,760,843)
Total stockholders' equity	\$ 12,965,965	\$ 13,452,504
Total liabilities and stockholders' equity	\$ 178,432,167	\$ 174,753,666

See accompanying notes to consolidated financial statements.

**AMB FINANCIAL CORP.  
AND SUBSIDIARIES**

**Consolidated Statements of Earnings  
(Unaudited)**

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Interest income				
Loans	\$ 2,265,226	\$ 2,389,210	\$ 6,983,583	\$ 7,120,753
Mortgage-backed securities	22,967	11,485	49,114	37,938
Investment securities	9,533	39,012	50,490	127,018
Interest-bearing deposits	11,490	51,137	35,929	231,444
Dividends on FHLB stock	29,614	18,071	74,222	58,150
Total interest income	<u>\$ 2,338,830</u>	<u>\$ 2,508,915</u>	<u>\$ 7,193,338</u>	<u>\$ 7,575,303</u>
Interest expense				
Deposits	\$ 914,198	\$ 1,097,494	\$ 2,886,757	\$ 3,307,192
Borrowings	436,051	488,271	1,432,987	1,548,090
Total interest expense	<u>\$ 1,350,249</u>	<u>\$ 1,585,765</u>	<u>\$ 4,319,744</u>	<u>\$ 4,855,282</u>
Net interest income	\$ 988,581	\$ 923,150	\$ 2,873,594	\$ 2,720,021
Provision for loan losses	345,000	31,698	465,000	86,334
Net interest income after provision for loan losses	<u>\$ 643,581</u>	<u>\$ 891,452</u>	<u>\$ 2,408,594</u>	<u>\$ 2,633,687</u>
Non-interest income:				
Loan fees and service charges	\$ 24,681	\$ 34,714	\$ 102,438	\$ 102,602
Deposit related fees	133,489	127,048	382,114	357,467
Other fee income	113,523	85,085	337,235	252,702
Rental income	18,204	38,232	89,235	109,286
Gain on sale of trading securities	9,804	-	9,236	-
Unrealized gain (loss) on trading securities	1,759	(7,908)	(35,735)	1,962
Loss from investment in limited partnership	(11,250)	(18,000)	(33,750)	(45,000)
(Loss) gain from real estate held for development and sale	-	(1,899)	(318,054)	34,256
Loss on sale of real estate owned	-	-	(87,519)	(93,807)
Gain on sale of available for sale securities	14,937	-	14,937	-
Gain on sale of other assets	-	15,267	23,841	18,429
Increase in cash value of insurance	32,996	32,368	96,930	94,694
Other income	6,669	7,228	27,486	17,792
Total non-interest income	<u>\$ 344,812</u>	<u>\$ 312,135</u>	<u>\$ 608,394</u>	<u>\$ 850,383</u>
Non-interest expense:				
Staffing costs	\$ 519,563	\$ 552,164	\$ 1,624,378	\$ 1,686,443
Advertising	45,080	49,926	123,438	108,310
Occupancy and equipment expense	114,476	108,682	335,243	317,272
Data processing	103,992	122,635	336,925	378,823
Professional fees	104,093	124,990	312,821	307,055
Federal deposit insurance premiums	25,890	3,617	77,838	11,109
Other operating expenses	224,584	245,728	601,836	620,381
Total non-interest expense	<u>\$ 1,137,678</u>	<u>\$ 1,207,742</u>	<u>\$ 3,412,479</u>	<u>\$ 3,429,393</u>
(Loss) income before income taxes	\$ (149,285)	\$ (4,155)	\$ (395,491)	\$ 54,677
Income tax (benefit) expense	(72,202)	(7,699)	(195,048)	(15,851)
Net (loss) income	<u>\$ (77,083)</u>	<u>\$ 3,544</u>	<u>\$ (200,443)</u>	<u>\$ 70,528</u>
(Loss) earnings per share- basic	\$ (0.08)	\$ -	\$ (0.20)	\$ 0.07
(Loss) earnings per share- diluted	\$ (0.08)	\$ -	\$ (0.20)	\$ 0.07

See accompanying notes to consolidated financial statements.

**Consolidated Statement of Changes in Stockholder's Equity  
(Unaudited)**

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 2007	\$ 16,862	\$ 11,530,669	\$ 9,653,588	\$ 12,228	\$ (7,760,843)	\$13,452,504
Comprehensive loss:						
Net loss			(200,443)			(200,443)
Other comprehensive loss, net of income taxes:						
Unrealized holding loss during the period				(12,953)		(12,953)
Reclassification adjustment of gains included in net income				(8,962)		(8,962)
Total comprehensive loss			(200,443)	(21,915)		(222,358)
Employee benefit stock retired (2,528 shares)	(25)	25				-
Stock option compensation		1,316				1,316
Dividends declared on common stock (\$.27 per share)			(265,497)			(265,497)
Balance at September 30, 2008	<u>\$ 16,837</u>	<u>\$ 11,532,010</u>	<u>\$ 9,187,648</u>	<u>\$ (9,687)</u>	<u>\$ (7,760,843)</u>	<u>\$12,965,965</u>

See accompanying notes to consolidated financial statements

AMB FINANCIAL CORP.  
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Nine Months Ended September 30	
	2008	2007
	(unaudited)	
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (200,443)	\$ 70,528
Adjustments to reconcile net (loss) income to net cash:		
Depreciation	140,426	153,111
Amortization of premiums and accretion of discounts	15,695	11,004
Provision for loan losses	465,000	86,334
Proceeds from sale of loans held for sale	-	1,389,953
Origination of loans held for sale	-	(1,380,000)
Increase in deferred compensation	14,252	29,568
Stock option compensation	1,316	8,625
Gain on sale of available for sale securities	(14,937)	0
Gain on sale of other assets	(23,841)	(18,429)
Proceeds from sale of trading securities	280,067	-
Gain on sale of trading securities	(9,236)	-
Loss on sale of real estate owned	87,519	93,807
Unrealized loss (gain) on trading securities	35,735	(1,962)
Loss from limited partnership	33,750	45,000
Increase in cash surrender value of life insurance	(96,930)	(94,694)
Loss (income) from real estate held for development and sale	318,054	(34,256)
Decrease in deferred income on loans	(28,303)	(22,796)
Decrease in accrued interest receivable	8,011	24,288
Decrease in accrued interest payable	(1,506)	(286)
Increase in purchased accounts receivable	(256,986)	(541,823)
Decrease in current and deferred income taxes	54,314	2,539
Other, net	(309,809)	922,661
<b>Net cash provided by operating activities</b>	<b>512,148</b>	<b>743,172</b>
<b>Cash flows from investing activities:</b>		
Purchase of investment securities	(4,917)	(1,006,447)
Proceeds from sales of available for sale securities	214,377	-
Proceeds from maturity and early redemption of investment securities	1,000,000	1,500,000
Purchase of mortgage-backed securities	(1,968,400)	-
Proceeds from repayments of mortgage-backed securities	344,099	316,067
Purchase of Federal Home Loan Bank stock	(214,200)	-
Purchase of loans	(2,750,948)	(2,593,500)
Loan disbursements	(30,457,500)	(31,351,447)
Loan repayments	32,644,112	38,831,641
Proceeds from sale of real estate held owned	342,197	673,754
Proceeds from sale of real estate held for development	-	462,927
Purchase of real estate held for development	(35,500)	(479,986)
Property and equipment expenditures, net	(2,282,620)	(2,469,736)
<b>Net cash provided (for) by investing activities</b>	<b>(3,169,300)</b>	<b>3,883,273</b>
<b>Cash flows from financing activities:</b>		
Net increase (decrease) in deposits	5,291,968	(3,143,634)
Proceeds from borrowed money	28,300,000	19,000,000
Repayment of borrowed money	(30,379,217)	(23,130,226)
Repayment of note payable	(134,344)	(136,067)
Increase in advance payments by borrowers for taxes and insurance	1,471,840	1,315,724
Purchase of treasury stock	-	(420,421)
Dividends paid on common stock	(265,497)	(269,640)
<b>Net cash provided by (for) financing activities</b>	<b>4,284,750</b>	<b>(6,784,264)</b>
<b>Net change in cash and cash equivalents</b>	<b>1,627,598</b>	<b>(2,157,819)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>2,935,008</b>	<b>9,727,842</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 4,562,606</b>	<b>\$ 7,570,023</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for:		
Interest	\$ 4,321,450	\$ 4,855,568
Income taxes	-	-
<b>Non-cash investing activities:</b>		
Transfer of loans to real estate owned	821,906	190,000

See accompanying notes to consolidated financial statements.

**Earnings Per Share  
(Unaudited)**

	Three Months Ended <u>Sept. 30, 2008</u>	Three Months Ended <u>Sept. 30, 2007</u>
Net (loss) income	\$ <u>(77,083)</u>	<u>3,544</u>
Total weighted average common shares outstanding for basic computation	<u>981,638</u>	<u>1,021,864</u>
Basic (loss) earnings per share	\$ <u>(0.08)</u>	<u>\$ 0.00</u>
Total weighted average common shares outstanding for basic computation	981,638	1,021,864
Common stock equivalents due to dilutive effect of stock options	<u>0</u>	<u>4,408</u>
Total weighted average common shares and equivalents outstanding for diluted computation	<u>981,638</u>	<u>1,026,272</u>
Diluted (loss) earnings per share	\$ <u>(0.08)</u>	<u>\$ 0.00</u>
	Nine Months Ended <u>Sept. 30, 2008</u>	Nine Months Ended <u>Sept. 30, 2007</u>
Net (loss) income	\$ <u>(200,443)</u>	<u>70,528</u>
Total weighted average common shares outstanding for basic computation	<u>983,013</u>	<u>1,033,784</u>
Basic (loss) earnings per share	\$ <u>(0.20)</u>	<u>\$ 0.07</u>
Total weighted average common shares outstanding for basic computation	983,013	1,033,784
Common stock equivalents due to dilutive effect of stock options	<u>0</u>	<u>5,303</u>
Total weighted average common shares and equivalents outstanding for diluted computation	<u>983,013</u>	<u>1,039,087</u>
Diluted (loss) earnings per share	\$ <u>(0.20)</u>	<u>\$ 0.07</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 make not misleading the financial position as of September 30, 2008, the results of operations for the three and nine month periods ended September 30, 2008 and 2007 and cash flows for the nine months ended September 30, 2008 and 2007. 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. The results of operations for the three and nine month period ended September 30, 2008 is not necessarily indicative of the results to be expected for the full year.

**Earnings Per Share**

Earnings per share for the three and nine month periods ended September 30, 2008 and 2007 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. 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.

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

This report in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere, contains, and other periodic reports and press releases of the Company may contain, certain forward-looking statements. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company are generally identifiable by the words "believe, intend, anticipate, estimate, project, plan" or similar expressions. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain and actual results may differ from those predicted. Factors which could have a material adverse effect on the operations and future prospects of the Company and the subsidiaries include, but are not limited to changes in interest rates, general national and local economic conditions, our decision whether or not to seek and accept funds from the U.S. Treasury, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality or composition of the Company's loan or investment portfolios, demand for loans, deposits, and other products, deposit flows, cost and availability of borrowings,

competition, demand for financial services in the Company's market area, real estate demand and values in the Company's primary market area, the Company's stock price, our holding costs for real estate, the possible short-term dilutive effect of potential acquisitions, and tax and financial accounting principles, policies and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

**Financial Condition.** The total assets of the Company were \$178.4 million at September 30, 2008, an increase of \$3.6 million, or 2.1%, from \$174.8 million at December 31, 2007. The increase in assets was primarily the result of increases in office properties and equipment, cash and cash equivalents and mortgage-backed securities, partially offset by declines in investment securities and loans receivable. Asset growth was funded by a \$5.3 million increase in deposits.

Cash and cash equivalents totaled a combined \$4.6 million at September 30, 2008, as compared to \$2.9 million at December 31, 2007. Investment securities, available for sale, decreased by \$1.2 million, totaling \$507,000 at September 30, 2008, as compared to \$1.7 million at December 31, 2007, due to investment maturities and sales. This portfolio consists of U.S. government agency obligations. Sales during the current period consisted of the redemption of shares in a U.S. government mutual fund totaling \$214,000. At September 30, 2008, the Company had an unrealized gain on available for sale investment securities of \$7,000 compared to an unrealized gain of \$24,000 at December 31, 2007.

Trading account securities, which consisted primarily of holdings in small thrift and community bank stocks at the Holding Company level were completely sold off as of September 30, 2008. The balance of these securities totaled \$307,000 at December 31, 2007.

Mortgage-backed securities increased \$1.6 million to \$2.4 million at September 30, 2008, as compared to \$858,000 at December 31, 2007. The increase was the result of purchases totaling \$2.0 million, offset in part by repayments totaling \$344,000. Purchases consisted of Fannie Mae and Freddie Mac, fixed rate, pass through securities. At September 30, 2008, the Company had an unrealized loss on available for sale mortgage-backed securities of \$23,000 compared to a \$4,000 unrealized loss at December 31, 2007.

Loans receivable decreased \$694,000, or 0.5%, to \$147.3 million at September 30, 2008, from \$148.0 million at December 31, 2007. Loan originations and purchases decreased to \$33.2 million for the nine month period ended September 30, 2008, as compared to \$33.9 million in the prior year's nine month period. Included in the current period loan purchases were \$2.7 million of participation interests in non-residential real estate loans located outside the Company's primary market area. Offsetting the originations and purchases were amortization and prepayments of loans totaling \$32.6 million and \$38.8 million for the nine month periods ended September 30, 2008 and 2007, respectively. The current period loan demand was primarily concentrated in one-to-four family residential lending. Loan originations of \$15.7 million during the first quarter of 2008 were favorably impacted by a decline in mortgage rates. However, during the most recent two quarters, the weak demand in the local real estate market has slowed loan origination activity to \$8.5 million for the June 30, 2008 quarter and \$9.7 million for the most recent September 30, 2008 quarter.

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 \$894,000 at September 30, 2008, an increase of \$156,000, or 21.2% from the \$738,000 allowance at December 31, 2007. The Bank's allowance for loan losses to net loans receivable was 0.60% at September 30, 2008, compared to 0.50% at December 31, 2007.

Non-performing loans totaled \$5.1 million, or 3.41% of total loans receivable at September 30, 2008, compared to \$2.6 million, or 1.72% of total loans receivable at December 31, 2007. The \$2.5 million increase in non-performing loans during the period includes \$2.3 million dollars relating to seven loans to one individual borrower. Included in non-performing loans at September 30, 2008, were three one-to four family construction loans totaling \$577,000, eighteen one-to four family mortgage loans totaling \$2.8 million, two loans secured by undeveloped lots totaling \$832,000, two multi-family mortgage loans totaling \$728,000, one unsecured commercial business loan totaling \$25,000, six secured consumer loans totaling \$110,000 and six unsecured consumer loans totaling \$28,000. The ratio of allowance for loan losses to non-performing loans was 17.5% at September 30, 2008, compared to 28.5% at December 31, 2007.

Management believes that the allowance for loan losses is adequate at September 30, 2008. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in information and economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Net real estate owned at September 30, 2008 totaled \$1.1 million. Real estate owned consisted of five residential parcels totaling \$376,000, one nonresidential parcel totaling \$250,000, one residential construction parcel totaling \$196,000, and thirty vacant land parcels located near Indianapolis, Indiana totaling \$321,000. The real estate owned properties are valued at the lower of cost or managements' estimate of net realizable value.

The Company's investment in a limited partnership decreased \$34,000 to \$678,000 at September 30, 2008, as compared to \$712,000 at December 31, 2007. The decline represents the Company's share of the operating losses generated by the partnership, which consists of an investment in an apartment development, which generates low-income housing tax credits to offset federal income tax liabilities.

Stock in the FHLB of Indianapolis increased by \$214,000, or 12.2%, totaling \$2.0 million at September 30, 2008. The Company is required to hold stock in the FHLB of Indianapolis in order to obtain advances. The amount of FHLB stock required to be held by the Company is determined by the amount of borrowed funds from the FHLB of Indianapolis.

Office properties and equipment increased \$2.1 million, to \$8.3 million at September 30, 2008, as compared to \$6.2 million at December 31, 2007. The increase was due to the ongoing construction of a three-story office building located in Schererville, Indiana, which will be partially utilized by the Bank as a full service branch office. The Bank will attempt to lease the remaining portion of the building. Construction of the banking facility is near completion and was opened to the public in October 2008. Construction costs incurred through September 30, 2008, totaled \$5.5 million. Remaining costs to

complete the construction project are anticipated to be approximately \$250,000.

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 September 30, 2008, the Company's \$1.7 million investment in real estate development projects consisted of three completed single-family dwelling units and four vacant lots. Due to the slowdown in the real estate market, the Company has decided not to build on the remaining vacant lots. All of the completed units and vacant lots are currently listed for sale. During the nine months ended September 30, 2008, the Company reduced the carrying amount of the properties by \$318,000, to \$1.7 million based upon current market conditions. In view of the current weak real estate market, there can be no assurance whether, when, and at what price the Company will be able to sell these assets.

Bank owned life insurance increased \$97,000 to \$3.8 million at September 30, 2008, as compared to December 31, 2007. The change represents the increase in the cash surrender value of the life insurance policies purchased in connection with deferred compensation plans utilized by directors and officers of the Company.

Prepaid expenses and other assets increased \$154,000 to \$5.2 million at September 30, 2008, as compared to December 31, 2007. The increase was due in part to a \$257,000 increase in the Company's purchased accounts receivable program, which totaled \$3.9 million at September 30, 2008. The program involves the purchase and subsequent management of the accounts receivables of credit-worthy business customers.

Deposits increased \$5.3 million, or 4.5%, to \$124.2 million at September 30, 2008, from \$118.9 million at December 31, 2007. The increase in deposits is due to an increase in checking and money market deposits totaling \$7.1 million and passbook accounts totaling \$283,000, offset by a decrease in certificates of deposits totaling \$2.1 million. At September 30, 2008, the Bank's non-certificate accounts (passbook, checking and money market accounts) comprised \$47.6 million, or 38.3% of deposits, compared to \$40.3 million, or 33.9% of deposits at December 31, 2007. The increase in non-certificate deposits during the current period is attributable in part to a \$3.0 million deposit balance increase related to one business customer as well as overall general increases in activity. The decline in certificates of deposits is due in part to a management decision not to match the more aggressive rates offered by other institutions, from time to time, in the Company's market area.

Borrowed money, which consisted primarily of FHLB of Indianapolis advances, decreased by \$2.1 million, or 5.8%, to \$33.8 million at September 30, 2008, as compared to \$35.9 million at December 31, 2007. The Company was able to reduce borrowings due in part to the aforementioned increase in deposit balances. Borrowings from the FHLB of Indianapolis totaled \$31.2 million at September 30, 2008, compared with \$33.4 million at December 31, 2007. At September 30, 2008, the weighted average rate for the FHLB of Indianapolis borrowings was 4.27%, compared to a weighted average rate of 4.87% at December 31, 2007, while the weighted term to maturity of the Company's FHLB of Indianapolis borrowings at September 30, 2008 was 2.0 years. During the first quarter of 2008, the Company repaid \$2.0 million in other borrowed funds, which had an adjustable interest rate and an annual renewal term and replaced it with a new \$2.0 million borrowing at a fixed rate of interest and a five-year term.

Total stockholders' equity of the Company decreased by \$487,000 to \$13.0 million, or 7.27% of total assets, at September 30, 2008, compared to \$13.5 million, or 7.70% of total assets at December 31,

2007. The decrease in stockholders' equity was the result of the Company's net loss of \$200,000 for the nine months ended September 30, 2008, an unrealized market value loss on available for sale investment securities during the period, net of tax, in the amount of \$22,000 and the payment of \$265,000 in cash dividends. At September 30, 2008, the Company's board of directors decided to suspend the regular quarterly dividend. The number of common shares outstanding at September 30, 2008 was 981,638 and the book value per common share outstanding was \$13.21. The Bank's tangible, core and risk-based capital percentages of 8.57%, 8.57% and 13.01%, respectively, at September 30, 2008 exceeded all regulatory requirements and categorize the Bank as well capitalized under OTS guidelines.

It is not clear how serious an effect the current 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.

The Company is currently considering whether to apply to have the United States Treasury invest in us through its Capital Purchase Program ("CPP") and we are awaiting details as to the application of such a program to companies whose securities are not registered with the Securities and Exchange Commission. We have made no decision as to whether we will attempt to participate in the CPP.

### **Results for the Quarter Ended September 30, 2008 Compared to the Quarter Ended September 30, 2007**

**General** – The Company recorded a net loss totaling \$77,000 for the quarter ended September 30, 2008, as compared to net income totaling \$4,000 for the quarter ended September 30, 2007. The diluted loss per share totaled (\$0.08) for the quarter ended September 30, 2008, as compared to diluted earnings of \$0.00 per share for the quarter ended September 30, 2007. The current period loss is attributable to a \$345,000 provision for loan loss incurred due to an increase in non-performing loans and related loan charge-offs.

**Interest income** - Total interest income decreased by \$170,000, or 6.8%, to \$2.3 million for the quarter ended September 30, 2008, as compared with the prior year. This decrease was the result of a 45 basis point decline in the average yield on interest-earning assets to 6.00% for the quarter ended September 30, 2008, as compared to 6.45% for the quarter ended September 30, 2007, offset in part by a \$443,000 increase in the average balance of interest-earning assets to \$155.9 million for the quarter ended September 30, 2008, as compared to \$155.5 million for the quarter ended September 30, 2007.

Interest income on loans receivable decreased \$124,000, or 5.2%, to \$2.3 million, as compared to the prior year. The decrease in interest income on loans was the result of a 49 basis point decline in the average yield to 6.08% for the quarter ended September 30, 2008, from 6.57% for the quarter ended September 30, 2007, offset in part by a \$3.5 million increase in the average balance of loans outstanding for the quarter ended September 30, 2008, as compared to the quarter ended September 30, 2007. The decrease in the average yield on loans receivable reflects the impact of repayments on higher rate loans, which were replaced with lower yielding new originations and purchases, along with interest rate reductions on adjustable rate loans which are indexed to Prime. The increase in the average balance was due to higher levels of new originations and purchases exceeding principal repayments. Interest income on mortgage-backed securities increased \$11,000, to \$23,000 for the quarter ended September 30, 2008, due to a \$956,000 increase in the average balance in the portfolio, and to a lesser extent, an increase in

the average yield to 4.68% for the current quarter, compared to 4.56% for the prior year's quarter. The average balance increased due to purchases of \$2.0 million between the periods.

Interest income on investment securities decreased \$30,000, to \$10,000 for the quarter ended September 30, 2008, as compared to the prior year. The decrease was the result of a \$2.6 million decline in the average balance of investment securities outstanding, which was partially offset by an increase in the average yield to 5.79% for the quarter ended September 30, 2008, from 4.86% for the quarter ended September 30, 2007. The decrease in the average balance was due to maturities and sales of investment securities. Interest income on interest bearing deposits decreased by \$40,000, to \$11,000 for the quarter ended September 30, 2008, as compared to the prior year. The decrease in interest income was the result of a \$1.7 million decrease in the average balance outstanding, as well as a decrease in the average yield to 1.82% for the quarter ended September 30, 2008, from 4.87% for the quarter ended September 30, 2007. The decrease in the average balance was due in part to fund loan originations and the construction of a new branch office. The decrease in the average yield was due to lower short-term interest rates paid on overnight deposits during 2008, as compared to 2007. Dividend income on FHLB of Indianapolis stock increased by \$12,000 to \$30,000 for the quarter ended September 30, 2008, as compared to the prior year. The increase in dividend income was the result of an increase in the average yield to 5.98% for the quarter ended September 30, 2008, from 4.09% for the quarter ended September 30, 2007, and an average balance outstanding increase of \$214,000 due to FHLB of Indianapolis stock purchase requirements. The increase in the average yield reflects the impact of a higher dividend rate paid in 2008, as compared to 2007.

**Interest Expense** - Total interest expense decreased by \$236,000, or 14.9%, to \$1.3 million for the quarter ended September 30, 2008, as compared to the prior year. The cost of interest-bearing liabilities decreased 71 basis points to 3.34% for the quarter ended September 30, 2008, as compared to 4.05% for the quarter ended September 30, 2007, due primarily to declining short-term interest rates, which enabled management to lower the rate on repricing certificates of deposits and still remain competitive. Partially offsetting this decrease was a \$4.9 million increase in the average balance of interest-bearing liabilities to \$160.3 million for the quarter ended September 30, 2008, as compared to \$155.4 million for the quarter ended September 30, 2007. The increase in the average balance of interest-bearing liabilities was primarily due to a \$5.1 million increase in the average outstanding balance of deposits outstanding.

Interest expense on deposits decreased by \$183,000, or 16.7%, to \$914,000 for the quarter ended September 30, 2008, as compared with the prior year, as a result of a 73 basis point decrease in the average cost of deposits to 2.89% for the quarter ended September 30, 2008, offset in part by a \$5.1 million increase in the average balance outstanding. The decrease in the average cost of deposits was primarily impacted by a 108 basis point decrease on certificates of deposits to an average rate of 3.74% during 2008, as compared to an average rate of 4.82% for 2007. During 2008, the majority of certificates of deposits that were scheduled to reprice did so at relatively lower short-term rates.

Interest expense on borrowings decreased by \$52,000 to \$436,000, for the quarter ended September 30, 2008, as compared with the prior year's quarter. This decrease was the result of a 57 basis point decline in the average cost of borrowed funds to 4.96% for the quarter ended September 30, 2008 and to a lesser extent, a \$125,000 decrease in the average balance of borrowings to \$34.9 million for the quarter ended September 30, 2008, from \$35.0 million for the quarter ended September 30, 2007. Interest expense on FHLB of Indianapolis advances decreased by \$63,000 to \$335,000 for the quarter ended September 30, 2008, as compared with the prior year as a result of a decrease of 77 basis points in the average cost of

FHLB of Indianapolis advances to 4.53% and a \$483,000 decrease in the average balance to \$29.3 million for the quarter ended September 30, 2008, from \$29.8 million for the quarter ended September 30, 2007. Interest expense on other borrowings increased \$11,000 to \$101,000 for the quarter ended September 30, 2008, as compared to \$90,000 for the prior year. The increase was due primarily to a \$357,000 increase in the average balance outstanding to \$5.6 million during the current period as compared to the same period one year ago.

**Net Interest Income** - As a result of the changes in interest income and interest expense, net interest income increased \$65,000, or 7.1%, to \$989,000 for the quarter ended September 30, 2008, as compared to the prior year's quarter. The net interest rate spread increased to 2.66% during the current quarter, as compared to 2.40% for the quarter ended September 30, 2007. The net interest margin also increased to 2.54% in the current quarter, as compared to 2.38% a year ago. The net interest rate spread and net interest margin increased between the periods primarily due to a decrease in the average cost of interest-bearing liabilities, which was favorably impacted by recent federal funds rate declines.

**Provision for Loan Losses** - The Company recorded a provision for loan losses of \$345,000 during the quarter, as compared to \$32,000 during the prior year's quarter due to the aforementioned increase in non-performing loans and loan charge-offs, which have been impacted by deteriorating conditions in both the local and national economy. During the current quarter, the Bank incurred net charge-offs totaling \$280,000 due primarily to losses incurred on single family loans as they were written down to current market values upon transfer into real estate owned. 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 increased by \$33,000, or 10.5% to \$345,000 for the quarter ended September 30, 2008 compared to the prior year's quarter. The increase was primarily the result of \$33,000 increase in service fees related to the Company's accounts receivable program due to an increase in volume, a \$15,000 gain on the sale of available for sale securities, an increase of \$19,000 in income from trading securities, a \$7,000 decline in the recorded loss on the Company's investment in a limited partnership, and a \$6,000 increase in deposit fee income. These increases were offset in part by a \$20,000 decline in rental income due to a vacancy at the Company's Dyer, Indiana branch, which leases excess space to local businesses, a \$15,000 decline in gains recorded on the sale of other assets, as similar gains were not reported in the current period, and a \$10,000 decline in loan fees and service charges due to lower loan volume.

**Non-Interest Expense** - Non-interest expense decreased by \$70,000, or 5.8%, to \$1.1 million for the quarter ended September 30, 2008 compared to the prior year's quarter due to a \$32,000 decline in compensation expense, a \$21,000 decline in other operating expenses, a \$21,000 decline in professional and legal fees due to lower consulting expenses, a \$19,000 decline in data processing expense due in part to the contract renegotiation of the primary data processing vendor of the Bank, and a \$5,000 decrease in advertising expenses. These decreases were offset by a \$22,000 increase in federal deposit insurance premiums due to the Bank fully utilizing its FDIC insurance credit in 2007 and a \$6,000 increase in occupancy and equipment expenses. It is anticipated that our occupancy and equipment expenses, compensation and various other expenses will increase significantly in future quarters as a result of the October 2008 opening of our new branch office facility. The Company will attempt to lease

a portion of the building that it will not utilize to offset some of these costs. In addition, it is anticipated that our FDIC insurance premiums will increase substantially in future periods, as a result of the FDIC's recent decision to substantially increase its assessment rates.

**Income Taxes** - The Company recorded an income tax benefit of \$72,000 for the quarter ended September 30, 2008, as compared to an income tax benefit of \$8,000 for the quarter ended September 30, 2007. The current year's tax benefit was generated in part by the net loss generated during the current quarter.

### **Results for the Nine Month Period Ended September 30, 2008 Compared to the Nine Month Period Ended September 30, 2007**

**General** - The Company recorded a net loss totaling \$200,000 for the nine month period ended September 30, 2008, as compared to net income totaling \$71,000 for the nine month period ended September 30, 2007. The diluted loss per share totaled (\$0.20) for the nine month period ended September 30, 2008, as compared to diluted earnings of \$0.07 per share for the nine month period ended September 30, 2007. The current period loss is primarily attributable to increased provisions for loan losses totaling \$465,000 as well as \$318,000 loss incurred on the write down of real estate held for development, along with holding costs totaling \$91,000 consisting primarily of real estate tax expenses related to the properties. These current period developments are directly related to the recent weak residential real estate market which has impacted most of the country.

**Interest income** - Total interest income decreased by \$382,000, or 5.0%, to \$7.2 million for the nine month period ended September 30, 2008, as compared with the prior year. This decrease was the result of a \$2.1 million decrease in the average balance of interest-earning assets to \$156.7 million for the nine month period ended September 30, 2008, as compared to \$158.8 million for the nine month period ended September 30, 2007, as well as a decrease in the average yield on interest-earning assets to 6.12% for the nine month period ended September 30, 2008, as compared to 6.36% for the nine month period ended September 30, 2007. The decrease in the average balance of interest-earning assets was primarily due to a decrease in the average balance of interest-bearing deposits. The decrease in the average yield of interest-earning assets reflects the impact of lower yields earned on interest bearing deposits due to reductions in short-term interest rates, as compared to the same period one-year ago.

Interest income on loans receivable decreased \$137,000, to \$7.0 million at September 30, 2008, as compared to the prior year. The decrease in interest income on loans was the result of a 27 basis point decline in the average yield to 6.21% for the nine month period ended September 30, 2008, from 6.48% for the nine month period ended September 30, 2007, offset in part by a \$3.4 million increase in the average balance of loans outstanding to \$150.0 million for the nine month period ended September 30, 2008, as compared to the nine month period ended September 30, 2007. The decrease in the average yield on loans receivable reflects the impact of repayments on higher rate loans, which were replaced with lower yielding new originations and purchases, along with interest rate reductions on adjustable rate loans which are indexed to Prime. The increase in the average balance was due to higher levels of new originations and purchases exceeding principal repayments

Interest income on mortgage-backed securities increased \$11,000 totaling \$49,000 at September 30, 2008, due to a \$326,000 increase in the average balance in the portfolio. The average balance increased due to purchases of \$2.0 million during the current year. Interest income on investment securities

decreased \$76,000, to \$50,000 at September 30, 2008, as compared to the prior year. The decrease in interest income on investment securities was the result of a \$2.2 million decrease in the average balance of investment securities outstanding, which was partially offset by an increase in the average yield to 5.69% for the nine month period ended September 30, 2008, from 5.08% for the nine month period ended September 30, 2007. The decrease in the average balance was due primarily to maturities of investment securities. Interest income on interest bearing deposits decreased by \$195,000, to \$36,000 at September 30, 2008, from \$231,000 at September 30, 2007. The decrease in interest income was the result of a \$3.9 million decrease in the average balance outstanding, as well as a decrease in the average yield to 2.19% for the nine month period ended September 30, 2008, from 5.06% for the nine month period ended September 30, 2007. The decrease in the average balance was due in part to fund loan originations and the construction of a new branch office. The decrease in the average yield was due to lower short-term interest rates paid on overnight deposits during 2008, as compared to 2007. Dividend income on FHLB of Indianapolis stock increased by \$16,000, to \$74,000 at September 30, 2008, as compared to the prior year. The increase in dividend income was the result of an increase in the average yield to 5.16% for the nine month period ended September 30, 2008, from 4.42% for the nine month period ended September 30, 2007, and an average balance outstanding increase of \$164,000 due to FHLB of Indianapolis stock purchase requirements. The increase in the average yield reflects the impact of a higher dividend rate paid in 2008, as compared to 2007.

**Interest Expense** - Total interest expense decreased by \$536,000, or 11.0%, to \$4.3 million for the nine month period ended September 30, 2008, as compared to the prior year. The cost of interest-bearing liabilities decreased 52 basis points to 3.56% for the nine month period ended September 30, 2008, as compared to 4.08% for the nine month period ended September 30, 2007, due in part to the refinancing of the Company's trust preferred debt in the prior year at a lower rate, as well as declining short-term interest rates, which enabled management to lower the rate on repricing certificates of deposits and still remain competitive. Partially offsetting this decline was a \$3.1 million increase in the outstanding average balance of interest-bearing liabilities to \$161.5 million for the nine month period ended September 30, 2008, as compared to \$158.4 million for the nine month period ended September 30, 2007. The increase in the average balance of interest-bearing liabilities was primarily due to a \$1.8 million increase in the average outstanding balance of FHLB of Indianapolis advances along with a \$849,000 increase in average deposit balances outstanding.

Interest expense on deposits decreased by \$420,000, or 12.7%, to \$2.9 million for the nine month period ended September 30, 2008, as compared with the prior year, as a result of a 49 basis point decrease in the average cost of deposits to 3.13% for the nine month period ended September 30, 2008, offset in part by an \$849,000 increase in the average balance outstanding. The decrease in the average cost of deposits was primarily impacted by a 65 basis point decrease on certificates of deposits to an average rate of 4.11% during 2008, as compared to an average rate of 4.76% for 2007. During 2008, the majority of certificates of deposits that were scheduled to reprice did so at relatively lower short-term rates.

Interest expense on borrowings decreased by \$115,000, or 7.4%, to \$1.4 million for the nine month period ended September 30, 2008, as compared with the prior year's nine month period as a result of a 72 basis point decline in the average cost of borrowed funds, to 4.91% for the nine month period ended September 30, 2008 compared to 5.63% for the nine month period ended September 30, 2007, offset in part by a \$2.2 million increase in the average balance of borrowings to \$38.8 million for the nine month period ended September 30, 2008, from \$36.6 million for the nine month period ended September 30, 2007. Interest expense on FHLB of Indianapolis advances decreased by \$102,000 to \$1.1 million for the

nine month period ended September 30, 2008, as compared with the prior year as a result of a decrease of 70 basis points in the average cost of FHLB of Indianapolis advances to 4.58%, offset in part by a \$1.8 million increase in the average balance to \$33.2 million for the nine month period ended September 30, 2008, from \$31.4 million for the nine month period ended September 30, 2007. Interest expense on other borrowings decreased \$13,000 to \$293,000 for the nine month period ended September 30, 2008, as compared to \$306,000 for the prior year. The decrease was due primarily to the Company's refinancing of its trust preferred issue at a reduced rate of interest.

**Net Interest Income** - As a result of the above changes in interest income and interest expense, net interest income increased \$154,000, or 5.6%, to \$2.9 million for the nine month period ended September 30, 2008, as compared to the prior year's nine month period. The net interest rate spread increased to 2.56% during the current nine month period, as compared to 2.28% for the nine month period ended September 30, 2007. The net interest margin also increased to 2.45% in the current nine month period, as compared to 2.30% a year ago. The net interest rate spread and net interest margin increased between the periods primarily due to a decrease in the average cost of interest-bearing liabilities, which was favorably impacted by recent federal funds rate declines.

**Provision for Loan Losses** - The Company recorded a provision for loan losses of \$465,000 during the current nine month period, as compared to \$86,000 during the prior year's nine month period due to the aforementioned increase in non-performing loans and loan charge-offs, which have been impacted by deteriorating conditions in both the local and national economy. The prior year's provision was favorably impacted by a \$249,000 loan loss recovery. During the current nine month period, the Bank's net charge-offs totaled \$309,000 due primarily to losses incurred on single family and non residential loans as they were written down to current market values upon transfer into real estate owned. The provision during the current year's nine month period was primarily the result of managements' periodic assessment of the allowance for loan losses on loans. Based upon managements' assessment, appropriate provisions are made to maintain the adequacy of the allowance to cover probable losses in the loan portfolio. The amount of the allowance is based on estimates and ultimate losses may vary from such estimates.

**Non-Interest Income** - Non-interest income decreased by \$242,000, to \$608,000 for the nine month period ended September 30, 2008, as compared to \$850,000 for the nine month period ended September 30, 2007. The reduction was due in part to the recognition of the aforementioned \$318,000 in losses from write-downs of real estate held for development and sale compared to \$34,000 in gains in the prior year's period, an increase of \$28,000 in losses from trading account securities, and a \$20,000 decline in rental income due to a vacancy at the Company's Dyer, Indiana branch, which leases excess space to local businesses. Partially offsetting these declines, was an \$84,000 increase in other fee income primarily related to the Company's accounts receivable program due to increased volumes, a \$25,000 increase in deposit fee income, and a \$15,000 gain on the sale of available for sale securities.

**Non-Interest Expense** - Non-interest expense decreased by \$17,000, to \$3.4 million at September 30, 2008, primarily due to a \$62,000 decline in compensation expense and a \$41,000 decline in data processing expense due in part to the contract renegotiation of the primary data processing vendor of the Bank. These declines were offset in part by a \$66,000 increase in federal deposit insurance premiums due to the Bank fully utilizing its FDIC insurance credit in 2007, an \$18,000 increase in occupancy and equipment expenses due in part to increased snow removal expenses, and a \$15,000 increase in advertising expenses. It is anticipated that our occupancy and equipment expenses, compensation and

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

**Income Taxes** - The Company recorded an income tax benefit of \$195,000 for the nine month period ended September 30, 2008, as compared to an income tax benefit of \$16,000 for the nine month period ended September 30, 2007. The current year's tax benefit was generated in part by the net loss incurred during the current nine month period as well as by favorable permanent tax adjustments relating to increases in cash value on Bank owned life insurance while the prior year's tax benefit was also generated in part by these favorable permanent tax adjustments as well as refunds generated from amending a prior year's state income tax return.

## **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 September 30, 2008, the Bank was in compliance with all of its capital requirements as follows:

	<u>September 30, 2008</u>		<u>December 31, 2007</u>	
	<u>Amount</u>	<u>Percent of Assets</u>	<u>Amount</u>	<u>Percent of Assets</u>
Stockholders' equity of the Bank	\$ 15,033,590	8.57 %	15,167,017	8.87 %
Tangible capital	15,042,754	8.57 %	15,153,994	8.86 %
Tangible capital requirement	2,632,682	1.50	2,564,790	1.50
Excess	\$ 12,410,072	7.07 %	12,589,204	7.36 %
Core capital	15,042,754	8.57 %	15,153,994	8.86 %
Core capital requirement	7,020,120	4.00	6,839,960	4.00
Excess	\$ 8,022,634	4.57 %	8,314,034	4.86 %
Core and supplementary capital	15,936,920	13.01 %	15,891,880	14.13 %
Risk-based capital requirement	9,798,422	8.00	8,996,000	8.00
Excess	\$ 6,138,498	5.01 %	6,895,880	6.13 %
Total Bank assets	\$ 175,503,000		170,999,000	
Adjusted total Bank assets	175,512,164		170,985,977	
Total risk-weighted assets	122,480,271		112,450,000	

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>September 30, 2008</u>	<u>December 31, 2007</u>
Stockholders' equity of the Bank	\$ 15,033,590	\$ 15,167,017
Regulatory capital adjustment		
For mortgage servicing rights	(523)	(795)
For available for sale securities	9,687	(12,228)
Tangible and core capital	\$ 15,042,754	\$ 15,153,994
General loan loss reserves	894,166	737,886
Core and supplementary capital	\$ 15,936,920	\$ 15,891,880

## 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,
	2008	2007
	(Dollars in thousands)	(Dollars in thousands)
Non-accruing loans:		
One to four family	2,814	1,679
Multi-family	728	350
Non-residential	---	260
Land	832	---
Commercial business	25	37
Construction	577	231
Consumer	138	36
<b>Total</b>	<b>5,114</b>	<b>2,593</b>
Foreclosed assets:		
One to four family	376	---
Multi-family	---	---
Non-residential	250	403
Land	321	347
Construction	196	---
Consumer	---	---
<b>Total</b>	<b>1,143</b>	<b>750</b>
<b>Total non-performing assets</b>	<b>6,257</b>	<b>3,343</b>
<b>Total as a percentage of total assets</b>	<b>3.51%</b>	<b>1.91%</b>

Non-performing assets increased during the past nine months, totaling \$6.3 million or 3.51% of total assets at September 30, 2008, compared to \$3.3 million, or 1.91% of total assets at December 31, 2007. The increase in non-accruing loans during the nine month period was primarily due to the addition of

seven loans totaling \$2.3 million related to one borrower involved in a real estate development project located in Crown Point, Indiana. The loans are comprised of \$832,000 secured by building lots, \$577,000 secured by the construction of one- to four family residential units, and \$883,000 secured by four unit residential properties. Management has considered the Company's non-performing loans in establishing its allowance for loan losses.

For the nine month period ended September 30, 2008, gross interest, which would have been recorded, had the non-accruing loans been current in accordance with their original terms totaled \$161,000.

At September 30, 2008, the Bank had net real estate owned properties totaling \$1.1 million, which consisted of five residential parcels totaling \$376,000, one nonresidential parcel totaling \$250,000, one residential construction parcel totaling \$196,000, and thirty vacant land parcels located near Indianapolis, Indiana totaling \$321,000. The Bank expects that real estate owned may increase based on the increase in non-accrual loans during 2008. During the nine months ended September 30, 2008, the Company recorded loss on the sale of real estate owned in the amount of \$88,000. Real estate owned is valued at the lower of cost or managements' estimate of net realizable value.

In addition to the non-performing assets set forth in the table above, as of September 30, 2008, there was one receivable totaling \$109,000 related to the Company's purchased accounts receivable program as to which the merchant is no longer in business and the Company is collecting amounts due through work-out arrangements directly from the third parties who owed funds to the merchant. During the nine months ended September 30, 2008, the Company collected \$129,000 towards the repayment of this receivable. 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.