

**AMB Financial Corp.
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**Financial Report
For The Three and Six Months Ended
June 30, 2011**

Note: This report is intended to be read in conjunction with our Annual Report to Stockholders for the year ended December 31, 2010, copies of which are included on this website. This report is dated June 30, 2011 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

	June 30, <u>2011</u> unaudited	December 31, <u>2010</u>
<u>Assets</u>		
Cash and amounts due from depository institutions	\$ 1,514,671	\$ 1,598,273
Interest-bearing deposits	12,713,114	15,897,383
Total cash and cash equivalents	14,227,785	17,495,656
Investment securities, available for sale, at fair value	300,446	299,608
Mortgage backed securities, available for sale, at fair value	5,834,858	5,182,412
Loans receivable (net of allowance for loan losses: \$1,871,887 at June 30, 2011 and \$1,884,599 at December 31, 2010)	133,677,400	133,411,381
Real estate owned and other repossessed assets	1,853,297	2,095,696
Investment in limited partnership	569,027	603,157
Stock in Federal Home Loan Bank of Indianapolis	1,628,300	1,799,900
Accrued interest receivable	623,984	606,519
Office properties and equipment- net	9,022,868	9,164,295
Real estate held for development and sale	148,000	148,000
Bank owned life insurance	4,192,143	4,132,094
Prepaid expenses and other assets	5,389,177	6,347,525
	\$ 177,467,285	\$ 181,286,243
<u>Liabilities and Stockholders' Equity</u>		
<u>Liabilities</u>		
Deposits	\$ 149,897,150	\$ 147,899,795
Borrowed money	6,381,208	12,381,208
Guaranteed preferred beneficial interest in the Company's subordinated debentures	3,000,000	3,000,000
Advance payments by borrowers for taxes and insurance	608,085	534,869
Other liabilities	2,357,712	2,402,366
Total liabilities	\$ 162,244,155	\$ 166,218,238
<u>Stockholders' Equity</u>		
Preferred stock, \$1,000 liquidation value; authorized 100,000 shares; 3,674 shares issued at June 30, 2011 and December 31, 2010	\$ 3,762,943	\$ 3,744,541
Common Stock, \$.01 par value; authorized 1,900,000 shares; 1,683,641 shares issued and 981,638 shares outstanding at June 30, 2011 and December 31, 2010	16,837	16,837
Additional paid- in capital	11,533,912	11,533,912
Retained earnings, substantially restricted	7,554,763	7,453,498
Accumulated other comprehensive income, net of tax	115,518	80,060
Treasury stock, at cost (702,003 shares at June 30, 2011 and December 31, 2010)	(7,760,843)	(7,760,843)
Total stockholders' equity	\$ 15,223,130	\$ 15,068,005
Total liabilities and stockholders' equity	\$ 177,467,285	\$ 181,286,243

See accompanying notes to consolidated financial statements.

**AMB FINANCIAL CORP.
AND SUBSIDIARIES**
Consolidated Statements of Earnings

	(Unaudited)			
	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Interest income				
Loans	\$ 1,916,357	\$ 1,986,267	\$ 3,806,674	\$ 4,023,315
Mortgage-backed securities	42,276	49,237	85,110	101,402
Investment securities	562	-	1,125	-
Interest-bearing deposits	7,823	9,525	16,979	12,003
Dividends on FHLB stock	10,984	9,799	24,547	19,489
Total interest income	<u>\$ 1,978,002</u>	<u>\$ 2,054,828</u>	<u>\$ 3,934,435</u>	<u>\$ 4,156,209</u>
Interest expense				
Deposits	\$ 443,523	\$ 550,843	\$ 894,865	\$ 1,134,020
Borrowings	154,607	276,260	362,634	557,304
Total interest expense	<u>\$ 598,130</u>	<u>\$ 827,103</u>	<u>\$ 1,257,499</u>	<u>\$ 1,691,324</u>
Net interest income	\$ 1,379,872	\$ 1,227,725	\$ 2,676,936	\$ 2,464,885
Provision for loan losses	123,000	133,000	266,000	323,000
Net interest income after provision for loan losses	<u>\$ 1,256,872</u>	<u>\$ 1,094,725</u>	<u>\$ 2,410,936</u>	<u>\$ 2,141,885</u>
Non-interest income:				
Loan fees and service charges	\$ 41,643	\$ 35,517	\$ 79,204	\$ 72,968
Deposit related fees	106,211	106,877	202,650	206,036
Other fee income	83,683	76,096	196,705	145,208
Rental Income	78,441	54,275	156,941	83,169
Gain on sale of loans	5,513	-	16,498	4,031
Loss from investment in limited partnership	(24,829)	(9,300)	(34,130)	(18,600)
Gain on sale of real estate owned and other repossessed assets	10,000	74,891	22,185	164,142
Increase in cash surrender value of life insurance	30,095	33,749	60,049	64,542
Other income	3,700	5,122	7,806	9,309
Total non-interest income	<u>\$ 334,457</u>	<u>\$ 377,227</u>	<u>\$ 707,908</u>	<u>\$ 730,805</u>
Non-interest expense:				
Staffing costs	\$ 659,574	\$ 634,672	\$ 1,329,965	\$ 1,280,419
Advertising	23,410	56,048	49,743	77,233
Occupancy and equipment expense	154,102	177,551	320,505	370,371
Data processing	163,512	141,090	316,309	278,283
Professional fees	74,606	88,840	155,894	175,599
Legal judgment	154,800	-	154,800	-
Federal deposit insurance premiums	62,943	63,431	139,150	125,971
Other operating expenses	156,411	185,542	327,901	338,877
Total non-interest expense	<u>\$ 1,449,358</u>	<u>\$ 1,347,174</u>	<u>\$ 2,794,267</u>	<u>\$ 2,646,753</u>
Income before income taxes	\$ 141,971	\$ 124,778	\$ 324,577	\$ 225,937
Income tax expense	44,314	36,057	104,780	63,929
Net income	<u>97,657</u>	<u>88,721</u>	<u>219,797</u>	<u>162,008</u>
Preferred stock dividends	50,065	50,065	100,130	100,130
Net income available to common shareholders	<u>\$ 47,592</u>	<u>\$ 38,656</u>	<u>\$ 119,667</u>	<u>\$ 61,878</u>
Earnings per share available to common shareholders:				
Basic	\$ 0.05	\$ 0.04	\$ 0.12	\$ 0.06
Diluted	\$ 0.05	\$ 0.04	\$ 0.12	\$ 0.06

See accompanying notes to consolidated financial statements.

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

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 2010	\$ 3,744,541	\$ 16,837	\$ 11,533,912	\$ 7,453,498	\$ 80,060	\$ (7,760,843)	\$ 15,068,005
Comprehensive income:							
Net income				219,797			219,797
Other comprehensive income, net of income taxes:							
Unrealized holding gain during the period					35,458		35,458
Total comprehensive income							255,255
Other	18,402			(18,402)			-
Preferred stock dividends				(100,130)			(100,130)
Balance at June 30, 2011	\$ 3,762,943	\$ 16,837	\$ 11,533,912	\$ 7,554,763	\$ 115,518	\$ (7,760,843)	\$ 15,223,130

See accompanying notes to consolidated financial statements.

**AMB FINANCIAL CORP.
AND SUBSIDIARIES**
Consolidated Statements of Cash Flows

	Six Months Ended June 30,	
	2011	2010
	(unaudited)	
Cash flows from operating activities:		
Net income	\$ 219,797	\$ 162,008
Adjustments to reconcile net income to net cash:		
Depreciation	180,405	180,552
Amortization of premiums and accretion of discounts	(47,580)	(18,385)
Proceeds from sale of loans held for sale	775,498	368,031
Origination of loans held for sale	(759,000)	(364,000)
Gain on sale of loans	(16,498)	(4,031)
Gain on sale of real estate owned	(22,185)	(164,142)
Provision for loan losses	266,000	323,000
Loss from limited partnership	34,130	18,600
Increase in cash surrender value of life insurance	(60,049)	(64,542)
Increase in deferred income on loans	33,701	6,954
Increase in prepaid and deferred income taxes	(71,120)	(98,242)
(Increase) decrease in accrued interest receivable	(17,465)	13,213
Decrease in accrued interest payable	(11,200)	(13,063)
Decrease (increase) in purchased accounts receivable	648,487	(1,258,530)
Increase in deferred compensation	13,114	11,576
Other, net	310,776	162,059
	<u>1,476,811</u>	<u>(738,942)</u>
Net cash provided by (for) operating activities		
Cash flows from investing activities:		
Purchase of mortgage-backed securities	(1,591,327)	(822,993)
Proceeds from repayments of mortgage-backed securities	1,044,718	832,512
Purchase of loans	-	(118,711)
Loan disbursements	(15,340,788)	(16,726,417)
Loan repayments	14,199,315	18,823,823
Proceeds from sale of real estate owned	840,337	1,893,166
Proceeds from the redemption of FHLB stock	171,600	-
Property and equipment expenditures, net	(38,978)	(465,397)
	<u>(715,123)</u>	<u>3,415,983</u>
Net cash provided (for) by investing activities		
Cash flows from financing activities:		
Net increase in deposits	1,997,355	5,493,886
Repayment of borrowed money	(6,000,000)	(6,000,000)
Increase in advance payments by borrowers for taxes and insurance	73,216	43,053
Dividends paid on preferred stock	(100,130)	(100,130)
	<u>(4,029,559)</u>	<u>(563,191)</u>
Net cash provided for financing activities		
Net change in cash and cash equivalents	(3,267,871)	2,113,850
Cash and cash equivalents at beginning of period	<u>17,495,656</u>	<u>18,409,841</u>
Cash and cash equivalents at end of period	<u>\$ 14,227,785</u>	<u>\$ 20,523,691</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 1,268,698	\$ 1,707,432
Income taxes	-	-
Non-cash investing activities:		
Transfer of loans to real estate owned	575,753	280,015

See accompanying notes to consolidated financial statements.

**Earnings Per Share
(Unaudited)**

	Three Months Ended <u>June 30, 2011</u>	Three Months Ended <u>June 30, 2010</u>
Net income available to common shareholders	\$ <u>47,592</u>	<u>38,656</u>
Total weighted average common shares outstanding for basic computation	<u>981,638</u>	<u>981,638</u>
Basic income per share	\$ <u>0.05</u>	<u>\$ 0.04</u>
Total weighted average common shares outstanding for basic computation	981,638	981,638
Common stock equivalents due to dilutive effect of stock options	-	-
Total weighted average common shares and equivalents outstanding for diluted computation	<u>981,638</u>	<u>981,638</u>
Diluted income per share	\$ <u>0.05</u>	<u>\$ 0.04</u>
	Six Months Ended <u>June 30, 2011</u>	Six Months Ended <u>June 30, 2010</u>
Net income available to common shareholders	\$ <u>119,667</u>	<u>61,878</u>
Total weighted average common shares outstanding for basic computation	<u>981,638</u>	<u>981,638</u>
Basic income per share	\$ <u>0.12</u>	<u>\$ 0.06</u>
Total weighted average common shares outstanding for basic computation	981,638	981,638
Common stock equivalents due to dilutive effect of stock options	-	-
Total weighted average common shares and equivalents outstanding for diluted computation	<u>981,638</u>	<u>981,638</u>
Diluted income per share	\$ <u>0.12</u>	<u>\$ 0.06</u>

**AMB Financial Corp.
And Subsidiaries**

Status as Non-Reporting Company. We are not subject to the reporting requirements of Section 13 of the Securities Exchange Act of 1934 and accordingly this report has not been prepared in accordance with applicable Securities Exchange Commission rules. This report is intended to cover the three and six month periods ended June 30, 2011 and should not be read to cover any other periods.

Notes to Consolidated Financial Statements. The accompanying unaudited consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America and in the opinion of management contain all adjustments (all of which are normal and recurring in nature) necessary to present fairly, and not make misleading, the financial position as of June 30, 2011, the results of operations for the three and six month periods ended June 30, 2011 and 2010 and cash flows for the six month periods ended June 30, 2011 and 2010. 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 and six month periods ended June 30, 2011 and 2010 were determined by dividing net income available to common shareholders for the periods by the weighted average number of both basic and diluted shares of common stock, as well as common stock equivalents outstanding. Stock options are regarded as common stock equivalents and are considered in diluted earnings per share calculations. Common stock equivalents are computed using the treasury stock method. For such periods, there was no dilutive effect of common stock equivalents.

Reclassifications. Certain 2010 items or amounts have been reclassified or restated in order to conform to the 2011 presentation.

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

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

- the current condition of the United States economy in general and in our local economy (including unemployment) in which we conduct operations;
 - the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board and the United States Treasury (“UST”);
 - our ability to manage and reduce our non-performing assets;
 - our ability to repay our holding company debt, including our \$3 million of trust preferred stock and \$2 million of holding company notes, when due;
 - the impact of new laws and regulations resulting from the recent 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”);
 - the impact of new regulators resulting from the change in the regulation of the Company and the Bank from the Office of Thrift Supervision to the Federal Reserve System and the Office of the Comptroller of the Currency which occurred on July 21, 2011;
 - future deposit premium levels which may continue to rise;
 - the impact of the possible receivership or nationalization of other banking institutions;
 - future loan underwriting and consumer protection requirements including those issued by the Consumer Financial Protection Bureau;
 - inflation, interest rate, market and monetary fluctuations and its impact on our interest rate sensitive balance sheet;
 - the decline in loan demand and real estate values within our local market;
 - our ability to redeem our \$3.7 million of preferred stock and \$184,000 of warrant preferred stock issued to the UST under its CPP before the dividend on the preferred stock increases to 9% on January 30, 2014;
 - the future financial strength, dividend level and activities of the FHLB of Indianapolis in which we own stock and from which we borrow money;
 - the impact of any new government foreclosure relief and loan modification programs;
 - the timely development of and acceptance of our new products and services and the perceived overall value of these products and services by users, including the features, pricing and quality thereof compared to competitors’ products and services;
 - the willingness of users to substitute our products and services for products and services of our competitors;
 - our ability to reinvest our cash flows in today’s very low interest rate environment;
 - our success in gaining regulatory approval of our products and services, when required;
 - the impact of changes in financial services’ laws and regulations (including laws concerning taxes, banking, securities and insurance);
 - the impact of technological changes;
 - competition from other financial service providers in the Company’s market area;
 - the success of our new executives in managing our business operations;
 - the success of our loan restructuring and work out arrangements;
 - our ability to accurately estimate the value of our assets and the appropriate level of our allowance for loan losses;
 - our ability to lease space in our branch facilities when vacancies occur;
 - 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 the Company or the Bank.

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

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

The CPP imposes substantial restrictions on the payment of dividends on the Company’s common stock and on the Company’s ability to repurchase its common stock without UST approval. The 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.

New Federal Legislation. The recently enacted Dodd-Frank Act will significantly change the current bank regulatory structure and affect the lending, investment, trading and operating activities of financial institutions and their holding companies effective as of July 21, 2011. The Dodd-Frank Act eliminated our former primary federal regulator, the Office of Thrift Supervision, and American Savings, FSB is now regulated by the Office of the Comptroller of the Currency (the primary federal regulator for national banks). The Dodd-Frank Act also authorizes the Board of Governors of the Federal Reserve System to supervise and regulate all savings and loan holding companies like AMB Financial Corp., in addition to bank holding companies which it currently regulates. As a result, the Federal Reserve Board’s current regulations applicable to bank holding companies, including holding company capital requirements, will apply to savings and loan holding companies like AMB Financial Corp., unless an exemption exists. These capital requirements are substantially similar to the capital requirements currently applicable to American Savings, FSB. The Dodd-Frank Act also requires the Federal Reserve Board to set minimum capital levels for bank holding companies that are as stringent as those required for the insured depository subsidiaries, and the components of Tier 1 capital are restricted to capital instruments that are currently considered to be Tier 1 capital for insured depository institutions. Bank

holding companies with assets of less than \$500 million are exempt from these capital requirements. Under the Dodd-Frank Act, the proceeds of trust preferred securities are excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by bank or savings and loan holding companies with less than \$15 billion of assets. The legislation also establishes a floor for capital of insured depository institutions that cannot be lower than the standards in effect today, and directs the federal banking regulators to implement new leverage and capital requirements within 18 months that take into account off-balance sheet activities and other risks, including risks relating to securitized products and derivatives.

The Dodd-Frank Act also creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions such as American Savings, FSB, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than \$10 billion in assets. Banks and savings institutions with \$10 billion or less in assets will be examined by their applicable bank regulators. The new legislation also weakens the federal preemption available for national banks and federal savings associations, and gives state attorneys general the ability to enforce applicable federal consumer protection laws.

The legislation also broadens the base for Federal Deposit Insurance Corporation insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor, retroactive to January 1, 2008, and non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2012. Lastly, the Dodd-Frank Act will increase stockholder influence over boards of directors by requiring companies to give stockholders a non-binding vote on executive compensation and so-called “golden parachute” payments. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not.

Financial Condition. The total assets of the Company were \$177.5 million at June 30, 2011, a decrease of \$3.8 million or 2.1%, from \$181.3 million at December 31, 2010. The decrease in total assets was primarily the result of decreases in cash and cash equivalents, as well as in accounts receivable financings. The cash generated from these reductions as well as an increase in deposits was utilized to fund the repayment of Federal Home Loan Bank of Indianapolis (FHLBI) advances totaling \$6.0 million.

Cash and cash equivalents, primarily interest bearing deposits, totaled \$14.2 million at June 30, 2011, as compared to \$17.5 million at December 31, 2010. The decreased cash levels were due in part to the repayment of the aforementioned FHLBI advances totaling \$6.0 million. Interest bearing deposits can fluctuate significantly on a day-to-day basis due to cash demands, customer deposit levels, loan activity and future expected cash flows. We may maintain interest-bearing deposits at relatively high levels, as a part of our effort to manage interest rate risk during a period of historically low interest rates.

Investment securities, available for sale, remained unchanged totaling \$300,000 at June 30, 2011 and December 31, 2010. Mortgage-backed securities increased \$652,000 to \$5.8 million at June 30, 2011,

from \$5.2 million at December 31, 2010. New purchases of \$1.6 million during the current six month period consisted of Freddie Mac, Fannie Mae, and Ginnie Mae, fixed rate, pass through securities. At June 30, 2011, the Company had an unrealized gain on available for sale mortgage-backed securities of \$192,000 compared to a \$134,000 unrealized gain at December 31, 2010.

Net loans receivable increased \$266,000, or 0.2%, to \$133.7 million at June 30, 2011, from \$133.4 million at December 31, 2010. Loan originations and purchases totaled \$16.1 million during the six months ended June 30, 2011, as compared to \$17.2 million during the prior year period. Included in the 2011 period were \$759,000 of single-family fixed rate loans originated for sale and subsequently sold into the secondary market as compared to \$364,000 during the prior year period. These 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 \$15.0 million and \$19.2 million for the six months ended June 30, 2011 and 2010, 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 adverse economic conditions. To determine the appropriate level for the allowance for loan losses, management applies historical loss percentages to performing residential real estate, nonresidential real estate, consumer, and commercial business loan balances. In addition, nonperforming loans are evaluated for current collateral deficiencies. Management establishes reserves within the allowance for loan losses for loans that have collateral deficiencies. By applying the historical loss factors to the current loan balances and identifying the required collateral deficiency reserves for the period, management records loan loss provisions, which establishes the appropriate level for the allowance for loan losses.

The allowance for loan losses was \$1.9 million at June 30, 2011, representing a \$13,000 decrease from the recorded allowance at December 31, 2010. This represents a ratio of allowance for loan losses to net loans receivable of 1.38% and 1.39%, respectively, at June 30, 2011 and December 31, 2010. Impacted by current negative economic conditions, continued high unemployment in our market area is causing weakness in loan quality, creating additional pressure on commercial loans, consumer loans, and credit card portfolios and also impacting the performance of residential mortgage loans. Collateral values also have failed to stabilize.

Management believes that the allowance for loan losses is adequate at June 30, 2011. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in information and economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the quality of loans and the adequacy of the allowance for loan losses and may require the Company to recognize additions to the allowance based upon their judgments about information available to them at the time of their examinations.

The Company's investment in a limited partnership decreased \$34,000 to \$569,000 at June 30, 2011, from \$603,000 at December 31, 2010. 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 decreased \$172,000 to \$1.6 million at June 30, 2011, from \$1.8 million at December 31, 2010. The decline represents a partial repurchase of excess stock by the FHLB of Indianapolis. The Company is required to hold stock in the FHLB of Indianapolis in order to obtain advances. The amount of FHLB stock required to be held by the Company is determined by the amount of borrowed funds from the FHLB of Indianapolis.

Office properties and equipment totaled \$9.0 million at June 30, 2011, as compared to \$9.2 million at December 31, 2010. The decline represents normal depreciation offset in part by additions totaling \$39,000.

The Company's investment in real estate development consists of two vacant lots valued at \$148,000, which are currently listed for sale.

Bank owned life insurance increased \$60,000 to \$4.2 million at June 30, 2011. The change represents an increase in the cash surrender value of the life insurance policies purchased in connection with deferred compensation plans utilized by directors and officers of the Company.

Prepaid expenses and other assets decreased \$958,000 to \$5.4 million at June 30, 2011. Prepaid expenses and other assets consist primarily of a \$1.8 million deferred tax asset, prepaid FDIC insurance premiums through December 31, 2012 totaling \$469,000, and \$2.6 million of purchased accounts receivables, which involve the purchase and subsequent management of accounts receivable of credit-worthy business customers. Purchased accounts receivable decreased \$636,000 to the aforementioned \$2.6 million at June 30, 2011 from \$3.3 million at December 31, 2010.

Deposits increased \$2.0 million to \$149.9 million at June 30, 2011 from \$147.9 million at December 31, 2010 primarily due to a \$1.5 million increase in passbook accounts, a \$700,000 increase in demand deposits and NOW accounts (checking) and a \$614,000 increase in money market accounts offset in part by an \$843,000 decrease in certificates of deposit accounts. At June 30, 2011, the Bank's non-certificate accounts (passbook, checking and money market accounts) comprised \$57.1 million, or 38.1% of deposits, compared to \$54.2 million, or 36.7% of deposits at December 31, 2010.

Borrowed money, which consisted primarily of FHLB of Indianapolis advances, decreased by \$6.0 million, or 48.5%, to \$6.4 million at June 30, 2011, as compared to \$12.4 million at December 31, 2010. Borrowings from the FHLB of Indianapolis totaled \$4.4 million at June 30, 2011, compared with \$10.4 million at December 31, 2010. At June 30, 2011, the weighted average rate on the remaining FHLB of Indianapolis borrowings was 5.04%, compared to 4.67% at December 31, 2010. The weighted term to maturity of the Company's FHLB of Indianapolis borrowings at June 30, 2011 was 2.6 years.

Total stockholders' equity of the Company increased by \$155,000 to \$15.2 million, or 8.58% of total assets, at June 30, 2011, compared to \$15.0 million, or 8.31% of total assets at December 31, 2010. The increase in stockholders' equity was the result of net income for the six months ended June 30, 2011 totaling \$220,000 as well as an unrealized market value gain on available for sale securities during the period, net of tax, in the amount of \$35,000. Offsetting these increases were preferred stock dividends paid to the United States Treasury totaling \$100,000. The number of common shares outstanding at June

30, 2011 was 981,638 and the book value per common share (excluding book value relating to preferred stock) outstanding was \$11.67. The Bank's tangible, core and risk-based capital percentages of 9.55%, 9.55% and 15.28%, respectively, at June 30, 2011 exceeded all regulatory requirements and categorize the Bank as well capitalized under applicable regulations.

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.

Loans receivable are summarized as follows:

	June 30, 2011	December 31, 2010
Mortgage loans:		
One-to-four family	\$ 90,483,927	\$ 90,749,662
Multi-family	7,028,437	6,169,450
Nonresidential	19,719,847	19,819,300
Construction	4,153,937	3,767,237
Land	1,960,010	2,378,394
	<hr/>	<hr/>
Total mortgage loans	123,346,158	122,884,043
Other loans:		
Equity lines of credit	7,312,069	7,357,251
Other consumer	1,962,792	1,925,354
	<hr/>	<hr/>
Total other loans	9,274,861	9,282,605
Commercial business loans	4,209,495	4,881,779
	<hr/>	<hr/>
Total loans receivable	136,830,514	137,048,427
Less:		
Loans in process	1,081,255	1,586,176
Net deferred yield adjustments	199,972	166,271
Allowance for loan losses	1,871,887	1,884,599
	<hr/>	<hr/>
Loans receivable, net	<u>\$ 133,677,400</u>	<u>\$ 133,411,381</u>

Non-Performing Assets, Impaired Loans and Allowance for Loan Losses.

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method for the dates indicated:

	Allowance for Loan Losses					
	At June 30, 2011			At December 31, 2010		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
One-to-four family	\$ 397,734	\$ 524,563	\$ 922,297	\$ 551,836	\$ 488,812	\$ 1,040,648
Multi-family	114,241	166,252	280,493	53,839	146,452	200,291
Nonresidential	82,391	207,886	290,277	25,564	219,894	245,458
Construction	50,309	17,933	68,242	50,308	11,210	61,518
Land	-	68,885	68,885	50,832	40,578	91,410
Equity lines of credit	11,135	23,855	34,990	12,448	24,085	36,533
Other consumer	16,550	43,046	59,596	20,982	45,603	66,585
Commercial business loans	35,613	111,494	147,107	19,046	123,110	142,156
Total	\$ 707,973	\$ 1,163,914	\$ 1,871,887	\$ 784,855	\$ 1,099,744	\$ 1,884,599

	Loan Balances					
	At June 30, 2011			At December 31, 2010		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
One-to-four family	\$ 2,106,791	\$ 88,377,136	\$ 90,483,927	\$ 2,965,130	\$ 87,784,532	\$ 90,749,662
Multi-family	359,616	6,668,821	7,028,437	260,626	5,908,824	6,169,450
Nonresidential	833,653	18,886,194	19,719,847	805,863	19,013,437	19,819,300
Construction	647,190	3,506,747	4,153,937	647,190	3,120,047	3,767,237
Land	-	1,960,010	1,960,010	174,077	2,204,317	2,378,394
Equity lines of credit	34,193	7,277,876	7,312,069	39,861	7,317,390	7,357,251
Other consumer	19,642	1,943,150	1,962,792	27,058	1,898,296	1,925,354
Commercial business loans	73,230	4,136,265	4,209,495	25,115	4,856,664	4,881,779
Total	\$ 4,074,315	\$ 132,756,199	\$ 136,830,514	\$ 4,944,920	\$ 132,103,507	\$ 137,048,427

Impaired loans, which consist of the Company's non-accrual loans, were as follows:

	June 30, 2011	December 31, 2010
Period end loans with allocated allowance for loan losses	\$ 3,431,945	\$ 4,210,557
Period end loans with no allocated allowance for loan losses	642,370	734,363
Total	\$ 4,074,315	\$ 4,944,920
Valuation reserve relating to impaired loans	\$ 707,973	\$ 784,855

The following table presents loans individually evaluated for impairment by class of loans as of the dates indicated:

	At June 30, 2011		At December 31 2010	
	Unpaid Principal Balance	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Allowance for Loan Losses Allocated
With an allowance recorded:				
One-to-four family	\$ 1,464,421	\$ 397,734	\$ 2,230,767	\$ 551,836
Multi-family	359,616	114,241	260,626	53,839
Nonresidential	833,653	82,391	805,863	25,564
Construction	647,190	50,309	647,190	50,308
Land	-	-	174,077	50,832
Equity lines of credit	34,193	11,135	39,861	12,448
Other consumer	19,642	16,550	27,058	20,982
Commercial business loans	73,230	35,613	25,115	19,046
With no related allowance recorded:				
One-to-four family	642,370	-	734,363	-
Total	\$ 4,074,315	\$ 707,973	\$ 4,944,920	\$ 784,855

The Company has no loans past due over ninety days and still accruing interest. The following table presents the recorded investment in nonaccrual loans by class of loans at the dates indicated:

	June 30, 2011	December 31, 2010
One-to-four family	\$ 2,106,791	\$ 2,965,130
Multi-family	359,616	260,626
Nonresidential	833,653	805,863
Construction	647,190	647,190
Land	-	174,077
Equity lines of credit	34,193	39,861
Other consumer	19,642	27,058
Commercial business loans	73,230	25,115
Total	\$ 4,074,315	\$ 4,944,920

The following tables represent the aging of the recorded investment in past due loans as of the dates indicated:

	June 30, 2011				
	30 - 89	Greater Than	Total	Loans	Total
	Days	90 Days		Not	
	Past Due	Past Due	Past Due	Past Due	
One-to-four family	\$ 1,255,829	\$ 2,106,791	\$ 3,362,620	\$ 87,121,307	\$ 90,483,927
Multi-family	138,684	359,616	498,300	6,530,137	7,028,437
Nonresidential	-	833,653	833,653	18,886,194	19,719,847
Construction	-	647,190	647,190	3,506,747	4,153,937
Land	-	-	-	1,960,010	1,960,010
Equity lines of credit	5,986	34,193	40,179	7,271,890	7,312,069
Other consumer	163,934	19,642	183,576	1,779,216	1,962,792
Commercial business loans	69,961	73,230	143,191	4,066,304	4,209,495
Total	\$ 1,634,394	\$ 4,074,315	\$ 5,708,709	\$ 131,121,805	\$ 136,830,514

	December 31, 2010				
	30 - 89	Greater Than	Total	Loans	Total
	Days	90 Days		Not	
	Past Due	Past Due	Past Due	Past Due	
One-to-four family	\$ 2,071,606	\$ 2,965,130	\$ 5,036,736	\$ 85,712,926	\$ 90,749,662
Multi-family	26,320	260,626	286,946	5,882,504	6,169,450
Nonresidential	-	805,863	805,863	19,013,437	19,819,300
Construction	-	647,190	647,190	3,120,047	3,767,237
Land	-	174,077	174,077	2,204,317	2,378,394
Equity lines of credit	6,433	39,861	46,294	7,310,957	7,357,251
Other consumer	41,352	27,058	68,410	1,856,944	1,925,354
Commercial business loans	152,368	25,115	177,483	4,704,296	4,881,779
Total	\$ 2,298,079	\$ 4,944,920	\$ 7,242,999	\$ 129,805,428	\$ 137,048,427

The Company has allocated \$329,093 and \$159,634 of loan loss reserves to customers whose loan terms have been modified in troubled debt restructurings as of June 30, 2011 and December 31, 2010 respectively. Restructured loan terms consisted of the capitalization of delinquent interest and fees on to the principal balance. The capitalized interest and fees are treated as a deferred income item and subsequently recognized over the remaining loan term.

The following table sets forth an analysis of the allowance for loan losses for the six months ended June 30, 2011 and 2010.

	Six Months Ended June 30, <u>2011</u>	Six Months Ended June 30, <u>2010</u>
Balance at beginning of period:	<u>\$1,884,599</u>	<u>\$2,329,696</u>
Charge-offs:		
One- to four family	(175,484)	(104,721)
Multi-family	-	-
Non-residential.....	-	-
Construction.....	-	-
Land	(75,201)	-
Consumer	(14,694)	(39,379)
Commercial business	<u>(15,000)</u>	<u>(368)</u>
Total charge-offs.....	<u>(280,379)</u>	<u>(144,468)</u>
Recoveries:		
One- to four family	-	15,829
Multi-family	-	-
Non-residential.....	-	-
Consumer	1,667	-
Commercial business	<u>-</u>	<u>2,456</u>
Total recoveries.....	<u>1,667</u>	<u>18,285</u>
Net charge-offs	(278,712)	(126,183)
Additions charged to operations	<u>266,000</u>	<u>323,000</u>
Balance at end of period	<u>\$1,871,887</u>	<u>\$2,526,513</u>
Ratio of net charge-offs during the period to average gross loans outstanding during the period	<u>0.20%</u>	<u>0.09%</u>
Ratio of net charge-offs during the period to average non-performing loans during the period.....	<u>6.22%</u>	<u>1.40%</u>

Non-performing loans totaled \$4.1 million, or 2.98% of total loans receivable at June 30, 2011, compared to \$4.9 million, or 3.61% of total loans receivable at December 31, 2010. Non-performing loans at June 30, 2011, consisted of:

- nineteen single family mortgage loans totaling \$2.1 million, of which eight loans totaling \$781,000 are located outside of the Bank's general lending area. Of those loans located outside the Bank's general lending area, four loans totaling \$482,000 are FHA insured;
- one non-residential loan representing a \$791,000 real estate participation loan secured by a water park hotel located in Dundee, Michigan. The balance represents the current fair value of the Company's 6% participation interest in the property. The borrower is experiencing cash flow difficulties due to current economic conditions in Michigan resulting in the inability to maintain debt service coverage. The Company, in conjunction with other loan participants, has

restructured the note and actively monitors the credit. Operating cash flows have been insufficient to support any debt service since the restructure. The water park portion of the property suffered storm damage in 2010 and as a result, business interruption insurance payments of \$21,000 have been received and applied towards principal reduction. The water park portion of the property was reopened and proceeds from net operating income totaling \$12,000 were applied towards principal reduction in May 2011;

- one multi-family construction loan representing a \$647,000 participation interest in a real estate development loan for the construction of nine residential condominium units located in Chicago, Illinois. The balance represents the current fair value of the Company's 50% percent participation interest in the development. The units are partially completed, however, there have been no sales, which has resulted in the borrower experiencing cash flow difficulties. The Company has initiated foreclosure proceedings;
- two loans secured by multi family dwelling units totaling \$360,000;
- two commercial nonmortgage loans totaling \$73,000;
- two non-residential loans totaling \$43,000;
- two consumer home equity lines of credit totaling \$34,000;
- one secured consumer loan totaling \$12,000; and
- one credit card receivable totaling \$7,000.

Included in the above non-performing loan totals are troubled debt restructurings which consisted of three single family loans totaling \$549,000 and one multi-family loan totaling \$333,000 which were restructured during 2009 and 2010 while in a non-performing status. These loans have since returned to a past due status in excess of ninety days as of June 30, 2011. Also included in the current non-performing loan totals are one commercial nonmortgage loan totaling \$63,000, one single family mortgage loan totaling \$56,000, and one consumer home equity loan totaling \$15,000 which were restructured in 2011 while in a non-performing status and have remained in a current status since restructured.

Not included in the above non-performing totals were three single-family loans totaling \$781,000 and one secured consumer loan totaling \$23,000, which were restructured during 2009 while in a non-performing status, but have subsequently been performing in accordance with their terms for at least six months since modification.

The ratio of allowance for loan losses to non-performing loans was 45.94% at June 30, 2011, compared to 38.11% at December 31, 2010.

Net real estate owned at June 30, 2011 totaled \$1.9 million as compared to \$2.1 million at December 31, 2010. Real estate owned includes:

- ten single family dwelling units totaling \$979,000;
- twenty-eight one to four family vacant land parcels totaling \$671,000 of which sixteen parcels totaling \$119,000 are located near Indianapolis, Indiana; and
- one nonresidential property totaling \$203,000.

All of the real estate owned properties, with the exception of the land parcels near Indianapolis, are located within the Bank's general lending area. The real estate owned properties are valued at the lower of cost or management's estimate of net realizable value. During the six months ended June 30, 2011,

the Company recorded net real estate owned sales of \$840,000 resulting in a gain of \$22,000. There can be no assurance whether, when, and at what price the Company will be able to sell the remaining inventory of real estate owned.

Non-Performing Assets. The following table sets forth the amounts and categories of non-performing assets, on the date indicated, in the Company's portfolio. Loans are reviewed monthly and any loan the collection of which 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.

	June 30, 2011	December 31, 2010
Non-accruing loans:		
One to four family	\$2,106,791	\$2,965,130
Multi-family	359,616	260,626
Non-residential	833,653	805,863
Construction	647,190	647,190
Land	-	174,077
Home Equity Line of Credit	34,193	39,861
Other Consumer	19,642	27,058
Commercial business	73,230	25,115
Subtotal	<u>\$4,074,315</u>	<u>\$4,944,920</u>
Foreclosed assets:		
One to four family	\$979,011	\$1,201,576
Multi-family	-	-
Non-residential	203,040	203,040
Construction	-	-
Land	671,246	691,080
Home Equity Line of Credit	-	-
Other Consumer	-	-
Commercial business	-	-
Subtotal	<u>\$1,853,297</u>	<u>\$2,095,696</u>
Total non-performing assets	<u>\$5,927,612</u>	<u>\$7,040,616</u>
Non-performing assets to total assets	3.34%	3.88%

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

Results for the Quarter Ended June 30, 2011 Compared to the Quarter Ended June 30, 2010

General. Net income available to common shareholders for the quarter ended June 30, 2011 was \$48,000, or \$0.05 per diluted share, an increase of \$9,000 over the net income available to common shareholders of \$39,000, or \$0.04 per diluted share, for the quarter ended June 30, 2010. Net income in the current quarter was positively impacted compared to the prior year's quarter by a \$152,000 increase in net interest income and a \$10,000 decrease in the provision for loan losses, offset by a \$102,000 increase in non interest expense, a \$43,000 decrease in non-interest income, and an \$8,000 increase in income tax expense. Excluding payment of preferred stock dividends, net income would have been \$98,000 in the current quarter compared to net income totaling \$89,000 in the prior year's quarter.

Interest Income. Total interest income decreased by \$77,000, or 3.7%, to \$2.0 million for the quarter ended June 30, 2011, from \$2.1 million for the prior year's quarter. This decrease was the result of a \$6.9 million decrease in the average balance of interest-earning assets to \$154.3 million for the quarter ended June 30, 2011, as compared to \$161.2 million for the same period in 2010. The decrease in the average balance of interest-earning assets was primarily due to a \$4.1 million decrease in the average balance of interest-bearing deposits and a \$2.4 million decrease in average loans receivable. The average yield earned on interest-earning assets increased to 5.13% for the quarter ended June 30, 2011 as compared to 5.10% for the quarter ended June 30, 2010.

Interest income on loans receivable decreased \$70,000, to \$1.9 million for the quarter ending June 30, 2011, as compared to the same period in 2010. The decrease in interest income on loans was primarily the result of a \$2.4 million decline in the average balance of loans outstanding to \$133.8 million for the quarter ended June 30, 2011, as compared to \$136.2 million for the quarter ended June 30, 2010, as well as a decline in the average yield to 5.73% for the quarter ended June 30, 2011 as compared to 5.84% for the quarter ended June 30, 2010. The decrease in the average balance was due in part to overall weak loan demand as well as loan payoffs and refinancings that were not replaced with new originations. The decline in the average yield earned reflects the impact of lower rate loans on new originations.

Interest income on mortgage-backed securities decreased \$7,000 to \$42,000 for the quarter ended June 30, 2011 as compared to the prior year's quarter, due to a 24 basis point decline in the average yield to 3.20% for the quarter ended June 30, 2011, from 3.44% for the quarter ended June 30, 2010, as well as a \$452,000 decrease in the average balance in the portfolio. The average yield declined due to lower fixed rates on new purchases. The average balance decreased over the most recent twelve-month period due to principal repayments exceeding new purchase activity. Interest income on interest bearing deposits decreased by \$2,000 to \$8,000 for the quarter ended June 30, 2011 compared to the quarter ended June 30, 2010. Interest income on interest-bearing deposits continues to be negatively impacted by the historical decline in overnight rates that began in the fourth quarter of 2008 and continues today. The Company continues to hold higher levels of short-term liquid assets due to the lack of desirable alternative investments in the current interest rate environment. Dividend income on FHLB of Indianapolis stock increased \$1,000 to \$11,000 for the quarter ended June 30, 2011, as the most recent dividend paid by the FHLB of Indianapolis was 2.50% as compared to a 2.00% dividend paid during the prior year's quarter.

Interest Expense. Total interest expense decreased by \$229,000, or 27.7%, to \$598,000 for the quarter ended June 30, 2011, as compared to \$827,000 for the same period in 2010. The average cost of interest-bearing liabilities decreased 48 basis points to 1.50% for the quarter ended June 30, 2011, as compared

to 1.98% for the quarter ended June 30, 2010, due to a continuing decline in short-term interest rates during the last twelve months, which enabled management to lower the rate on maturing certificates of deposit and still remain competitive. The average balance of interest-bearing liabilities outstanding declined by \$8.3 million to \$159.4 million for the quarter ended June 30, 2011, as compared to \$167.7 million for the quarter ended June 30, 2010. The average balance of borrowings outstanding decreased by \$9.6 million between the periods, while the average balance of deposits outstanding increased by \$1.3 million.

Interest expense on deposits decreased by \$107,000, or 19.5%, to \$444,000 for the quarter ended June 30, 2011, from \$551,000 for the same period in 2010. The decrease in interest expense on deposits was primarily due to a 31 basis point decrease in the average cost of deposits to 1.19% for the quarter ended June 30, 2011 from 1.50% for the prior year's quarter, offset in part by a \$1.3 million increase in the average balance of deposits outstanding. The decrease in the average cost of deposits was primarily driven by a 35 basis point decrease on certificates of deposits to an average rate of 1.74% during the quarter ended June 30, 2011, as compared to an average rate of 2.09% for the quarter ended June 30, 2010. As was the case during 2010, the majority of certificates of deposits that were scheduled to reprice continue to do so at relatively lower short-term rates.

Interest expense on borrowings decreased by \$122,000, or 44.0%, to \$154,000 for the quarter ended June 30, 2011, from \$276,000 for the same period in 2010. This decrease was the result of a \$9.6 million decrease in the average balance of borrowings to \$10.4 million for the quarter ended June 30, 2011, from \$20.0 million for the quarter ended June 30, 2010. Partially offsetting this decline was a 42 basis point increase in the average cost of borrowed funds to 5.96% for the quarter ended June 30, 2011 compared to 5.54% for the quarter ended June 30, 2010 as a result of the repayment at maturity of lower rate borrowings. Interest expense on FHLB of Indianapolis advances decreased to \$65,000 for the quarter ended June 30, 2011, as compared to \$187,000 for the prior year's quarter as a result of a \$9.6 million decrease in the average balance outstanding to \$5.4 million for the quarter ended June 30, 2011, from \$15.0 million for the quarter ended June 30, 2010. Interest expense on other borrowings, having an outstanding average balance of \$5.0 million, remained unchanged at \$89,000 for the quarter ended June 30, 2011, as compared to the prior year's quarter.

Net Interest Income. As a result of the above changes in interest income and interest expense, net interest income increased \$152,000, or 12.4%, to \$1.4 million for the quarter ended June 30, 2011, from \$1.2 million for the same period in 2010. The net interest rate spread increased 51 basis points to 3.63% for the quarter ended June 30, 2011 from 3.12% for the same period in 2010, while the net interest margin increased 53 basis points to 3.58% for the quarter ended June 30, 2011 from 3.05% for the same period in 2010. The increase in the net interest rate spread and net interest margin was due to the decreased cost of funds resulting from the current low interest rate environment for deposit accounts as well as the repayment of higher costing borrowed money.

Provision for Loan Losses. The Company recorded a provision for loan losses of \$123,000 during the quarter ended June 30, 2011, as compared to \$133,000 during the quarter ended June 30, 2010. Despite the decline in non-performing loans during the most recent three month period, provisions to the allowance were warranted due to charge-off activity and continued adverse pressures for both the local and national economies. During the quarter ended June 30, 2011, the Bank incurred net charge-offs totaling \$175,000. 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 \$43,000 to \$334,000 for the quarter ended June 30, 2011, as compared to \$377,000 for the quarter ended June 30, 2010. The Company recognized \$10,000 in gain on sale of real estate owned during the three months ended June 30, 2011, compared to \$75,000 in gains during the six months ended June 30, 2010. In addition, the Company recorded a \$25,000 loss from investment in a limited partnership during the three months ended June 30, 2011 compared to a loss of \$9,000 in the same quarter in 2010. Offsetting these decreases were a \$24,000 increase in rental income, as additional branch office space has been leased, an \$8,000 increase in other fee income primarily due to increased balances of average accounts receivable financings as well as third party brokerage commissions, a \$6,000 increase in loan fees and a \$5,000 increase in gain on the sale of loans to the Federal Home Loan Bank of Indianapolis.

Non-Interest Expense. Non-interest expense increased by \$102,000, totaling \$1.4 million during the three months ended June 30, 2011 as compared to \$1.3 million for the quarter ended June 30, 2010. The increase was primarily due to a \$155,000 loss contingency expense related to a court judgment (see page 31 “Legal Proceedings”), a \$25,000 increase in staffing costs due an increase in employee pension expenses and a \$22,000 increase in data processing expense due to contractual fee increases. These increases were offset in part by a \$33,000 decrease in advertising expense, a \$29,000 decrease in other operating expenses, primarily in real estate owned, telecommunication, and check loss expenses, a \$23,000 decrease in occupancy expenses due to lower real estate tax accruals, utilities, and equipment repairs and a \$14,000 decrease in professional fees.

Income Taxes. The Company recorded an income tax expense of \$44,000 for the quarter ended June 30, 2011, as compared to \$36,000 for the quarter ended June 30, 2010, as a result of an increase in pre-tax income.

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

The following table presents, for the periods indicated, the total dollar amounts of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates. All average balances were calculated using average daily balances and include non-accruing loans.

Yield Analysis

(Dollars in thousands)

	Three Months Ended <u>June 30, 2011</u>			Three Months Ended <u>June 30, 2010</u>		
	<u>Average Balance</u>	<u>Interest</u>	<u>Average Yield/ Cost</u>	<u>Average Balance</u>	<u>Interest</u>	<u>Average Yield/ Cost</u>
Assets:						
Interest-Earning Assets:						
Loans receivable	\$133,752	\$1,916	5.73%	\$136,162	\$1,986	5.84%
Mortgage-backed securities	5,281	42	3.20	5,733	49	3.44
Investment securities	300	1	0.75	-	-	-
Interest-bearing deposits	13,193	8	0.24	17,331	10	0.22
FHLB stock	1,760	11	2.50	1,965	10	2.00
Total interest-earning assets	<u>154,286</u>	<u>1,978</u>	5.13	<u>161,191</u>	<u>2,055</u>	5.10
Non interest-earning assets	<u>23,952</u>			<u>25,315</u>		
Total assets	<u>178,238</u>			<u>186,506</u>		
Liabilities and Stockholders' Equity:						
Interest-Bearing Liabilities:						
Passbook accounts	20,370	12	0.25%	18,865	14	0.30%
Demand accounts	35,950	29	0.32	38,196	65	0.68
Certificate accounts	<u>92,673</u>	<u>402</u>	1.74	<u>90,616</u>	<u>472</u>	2.09
Total deposits	148,993	443	1.19	147,677	551	1.50
Borrowings	<u>10,403</u>	<u>155</u>	5.96	<u>19,987</u>	<u>276</u>	5.54
Total interest-bearing liabilities	<u>159,396</u>	<u>598</u>	1.50	<u>167,664</u>	<u>827</u>	1.98
Non interest-bearing liabilities	<u>3,659</u>			<u>3,901</u>		
Total liabilities	<u>163,055</u>			<u>171,565</u>		
Stockholders' equity	<u>15,183</u>			<u>14,941</u>		
Total liabilities and stockholders' equity	<u>\$178,238</u>			<u>\$186,506</u>		
Net interest income / interest rate spread		<u>\$1,380</u>	<u>3.63%</u>		<u>\$1,228</u>	<u>3.12%</u>
Net interest margin			3.58%			3.05%

Results for the Six Months Ended June 30, 2011 Compared to the Six Months Ended June 30, 2010

General. Net income available to common shareholders for the six months ended June 30, 2011 was \$120,000, or \$0.12 per diluted share, an increase of \$58,000 over the net income available to common shareholders of \$62,000, or \$0.06 per diluted share, for the six months ended June 30, 2010. Net income in the current six month period was positively impacted compared to the prior year's six month period by a \$212,000 increase in net interest income and a \$57,000 decrease in the provision for loan losses, offset by a \$147,000 increase in non interest expense, a \$23,000 decrease in non-interest income, and a \$41,000 increase in income tax expense. Excluding payment of preferred stock dividends, net income would have been \$220,000 in the current six month period compared to net income totaling \$162,000 in the prior year's six month period.

Interest Income. Total interest income decreased by \$222,000, or 5.3%, to \$3.9 million for the six months ended June 30, 2011, from \$4.1 million for the prior year's six month period. This decrease was the result of a \$5.0 million decrease in the average balance of interest-earning assets to \$155.2 million for the six months ended June 30, 2011, as compared to \$160.2 million for the same period in 2010. The decrease in the average balance of interest-earning assets was primarily due to a \$3.6 million decrease in average loans receivable and a \$1.0 million decrease in the average balance of interest-bearing deposits. The average yield earned on interest-earning assets decreased to 5.07% for the six months ended June 30, 2011, as compared to 5.19% for the six months ended June 30, 2010.

Interest income on loans receivable decreased \$216,000, to \$3.8 million for the six months ending June 30, 2011, as compared to the same period in 2010. The decrease in interest income on loans was primarily the result of a \$3.6 million decline in the average balance of loans outstanding to \$133.3 million for the six months ended June 30, 2011, as compared to \$136.9 million for the six months ended June 30, 2010, as well as a decline in the average yield to 5.72% for the six months ended June 30, 2011 as compared to 5.88% for the six months ended June 30, 2010.

Interest income on mortgage-backed securities decreased \$16,000 to \$85,000 for the six months ended June 30, 2011 from \$101,000 for the same period in 2010, due to a 32 basis point decline in the average yield to 3.21% for the six months ended June 30, 2011, from 3.53% for the six months ended June 30, 2010, as well as a \$435,000 decrease in the average balance of mortgage-backed securities to \$5.3 million for the six months ended June 30, 2011 from \$5.7 million for the same period in 2010. Interest income on interest bearing deposits increased \$5,000 to \$17,000 for the six months ended June 30, 2011 compared to the six months ended June 30, 2010, due to an 8 basis point increase in the average yield to 0.24% for the six months ended June 30, 2011 compared to 0.16% for the six months ended June 30, 2010, offset in part by a \$1.0 million decrease in the average balance outstanding to \$14.5 million for the six months ended June 30, 2011 compared to \$15.5 million for the six months ended June 30, 2010. Dividend income on FHLB of Indianapolis stock increased \$5,000 to \$24,000 for the six months ended June 30, 2011, due to an increase in the dividend rate paid during the first six months of 2011 compared to the prior year's period.

Interest Expense. Total interest expense decreased by \$434,000, or 25.7%, to \$1.3 million for the six months ended June 30, 2011, from \$1.7 million for the same period in 2010. The average cost of interest-bearing liabilities decreased 48 basis points to 1.57% for the six months ended June 30, 2011, as compared to 2.05% for the six months ended June 30, 2010, due to a continuing decline in short-term

interest rates. The average balance of interest-bearing liabilities outstanding declined by \$5.6 million to \$161.1 million for the six months ended June 30, 2011, as compared to \$166.7 million for the six months ended June 30, 2010. The average balance of borrowings outstanding decreased by \$7.6 million between the periods, while the average balance of deposits outstanding increased by \$2.0 million.

Interest expense on deposits decreased by \$239,000, or 21.1%, to \$895,000 for the six months ended June 30, 2011, from \$1.1 million for the same period in 2010. The decrease in interest expense on deposits reflected a 34 basis point decrease in the average rate paid on interest bearing deposits to 1.22% for the six months ended June 30, 2011 from 1.56% for the prior year's six month period. The decrease in the average cost of deposits was primarily driven by a 43 basis point decrease in the average rate paid on certificates of deposits to 1.76% during the six months ended June 30, 2011, as compared to 2.19% for the six months ended June 30, 2010.

Interest expense on borrowings decreased by \$195,000, or 34.9%, to \$362,000 for the six months ended June 30, 2011, from \$557,000 for the same period in 2010. This decrease in interest expense on borrowings was the result of a \$7.6 million decrease in the average balance of borrowings to \$12.8 million for the six months ended June 30, 2011, from \$20.4 million for the six months ended June 30, 2010, offset by a 20 basis point increase in the average cost of borrowings funds to 5.69% for the six months ended June 30, 2011 compared to 5.49% for the six months ended June 30, 2010. Interest expense on FHLB of Indianapolis advances decreased to \$185,000 for the six months ended June 30, 2011, as compared to \$379,000 for the prior year's six month period as a result of a decrease in the average balance outstanding to \$7.8 million for the six months ended June 30, 2011, from \$15.4 million for the six months ended June 30, 2010. Interest expense on other borrowings, having an outstanding average balance of \$5.0 million, remained unchanged at \$178,000 for the six months ended June 30, 2011, as compared to the prior year's six month period.

Net Interest Income. Net interest income increased by \$212,000, or 8.6%, to \$2.7 million for the six months ended June 30, 2011, from \$2.5 million for the same period in 2010. The net interest rate spread increased 36 basis points to 3.50% for the six months ended June 30, 2011 from 3.14% for the same period in 2010, while the net interest margin increased 37 basis points to 3.45% for the six months ended June 30, 2011 from 3.08% for the same period in 2010. The increase in the net interest rate spread and net interest margin was due to the decreased cost of funds resulting from the current low interest rate environment for deposit accounts.

Provision for Loan Losses. The Company recorded a provision for loan losses of \$266,000 during the six months ended June 30, 2011, as compared to \$323,000 during the six months ended June 30, 2010. Despite the decline in non-performing loans during the most recent six month period, provisions to the allowance were warranted due to charge-off activity and continued adverse pressures for both the local and national economies. During the six months ended June 30, 2011, the Bank incurred net charge-offs totaling \$279,000 of which \$125,000 relates to owner occupied single family residential loans, \$50,000 in non-owner occupied single family residential loans, \$75,000 in vacant land parcels and \$29,000 relating to consumer and commercial business 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 \$23,000 to \$708,000 for the six months ended June 30, 2011, as compared to \$731,000 for the six months ended June 30, 2010. The Company recognized \$22,000 in gains on sale of real estate owned during the six month period ended June 30, 2011, compared to \$164,000 in gains in the six month period ended June 30, 2010. In addition the Company recorded a \$34,000 loss from investment in a limited partnership during the six months ended June 30, 2011 compared to a loss of \$19,000 in the same period in 2010. Offsetting these decreases were a \$74,000 increase in rental income, as additional branch office space has been leased, a \$52,000 increase in other fee income primarily due to increased balances of average accounts receivable financings as well as third party brokerage commissions and a \$12,000 increase in gain on the sale of loans to the Federal Home Loan Bank of Indianapolis.

Non-Interest Expense. Non-interest expense increased by \$147,000, totaling \$2.8 million during the three months ended June 30, 2011 as compared to \$2.6 million for the six months ended June 30, 2010. The increase was due to a \$155,000 loss contingency expense related to a court judgment (see page 31 “Legal Proceedings”), a \$49,000 increase in staffing costs due an increase in employee pension expenses, a \$38,000 increase in data processing expenses due to contractual fee increases and a \$13,000 increase in FDIC deposit insurance expense. These increases were offset in part by a \$50,000 decrease in occupancy expenses due to lower real estate tax accruals, utilities, and equipment repairs, a \$27,000 decrease in advertising expenses, a \$20,000 decrease in professional fees primarily consisting of legal and audit expenses and an \$11,000 decrease in other operating expenses.

Income Taxes. The Company recorded an income tax expense of \$105,000 for the six months ended June 30, 2011, as compared to \$64,000 for the six months ended June 30, 2010, as a result of an increase in pre-tax book income.

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

The following table presents, for the periods indicated, the total dollar amounts of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates. All average balances were calculated using average daily balances and include non-accruing loans.

Yield Analysis

(Dollars in thousands)

	Six Months Ended <u>June 30, 2011</u>			Six Months Ended <u>June 30, 2010</u>		
	<u>Average Balance</u>	<u>Interest</u>	<u>Average Yield/ Cost</u>	<u>Average Balance</u>	<u>Interest</u>	<u>Average Yield/ Cost</u>
Assets:						
Interest-Earning Assets:						
Loans receivable	\$133,313	\$3,807	5.72%	\$136,965	\$4,023	5.88%
Mortgage-backed securities	5,305	85	3.21	5,740	101	3.53
Investment securities	300	1	0.75	-	-	-
Interest-bearing deposits	14,521	17	0.24	15,520	12	0.16
FHLB stock	1,780	24	2.78	1,965	20	2.00
Total interest-earning assets	<u>155,219</u>	<u>3,934</u>	5.07	<u>160,190</u>	<u>4,156</u>	5.19
Non interest-earning assets	<u>24,478</u>			<u>25,178</u>		
Total assets	<u>179,697</u>			<u>185,368</u>		
Liabilities and Stockholders' Equity:						
Interest-Bearing Liabilities:						
Passbook accounts	19,982	25	0.25%	18,430	26	0.29%
Demand accounts	35,476	58	0.33	37,470	126	0.68
Certificate accounts	<u>92,793</u>	<u>812</u>	1.76	<u>90,343</u>	<u>982</u>	2.19
Total deposits	148,251	895	1.22	146,243	1,134	1.56
Borrowings	<u>12,812</u>	<u>362</u>	5.69	<u>20,451</u>	<u>557</u>	5.49
Total interest-bearing liabilities	<u>161,063</u>	<u>1,257</u>	1.57	<u>166,694</u>	<u>1,691</u>	2.05
Non interest-bearing liabilities	<u>3,492</u>			<u>3,757</u>		
Total liabilities	<u>164,555</u>			<u>170,451</u>		
Stockholders' equity	<u>15,142</u>			<u>14,917</u>		
Total liabilities and stockholders' equity	<u>\$179,697</u>			<u>\$185,368</u>		
Net interest income / interest rate spread		<u>\$2,677</u>	<u>3.50%</u>		<u>\$2,465</u>	<u>3.14%</u>
Net interest margin			3.45%			3.08%

Capital Standards. As a federally chartered savings bank, the Bank's deposits are insured up to the applicable limits by the Federal Deposit Insurance Corporation ("FDIC"). The Bank is a member of the Federal Home Loan Bank ("FHLB") of Indianapolis, which is one of the twelve regional banks comprising the FHLB system. Prior to July 21, 2011, the Bank was regulated by the Office of Thrift Supervision ("OTS") and the FDIC. Effective July 21, 2011, pursuant to the Dodd-Frank Act, the Bank became regulated by the Office of the Comptroller of the Currency ("OCC"), the primary federal regulator of national banks. 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 OCC, 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, as implemented by the OCC as successor to the OTS, 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 June 30, 2011, the Bank was in compliance with all of its capital requirements as follows:

	<u>June 30, 2011</u>		<u>December 31, 2010</u>	
	<u>Amount</u>	<u>Percent of Assets</u>	<u>Amount</u>	<u>Percent of Assets</u>
Stockholders' equity of the Bank	\$ 17,673,131	9.88 %	17,267,528	9.57 %
Tangible capital	16,782,950	9.55 %	16,374,992	9.12 %
Tangible capital requirement	2,635,047	1.50	2,691,922	1.50
Excess	\$ 14,147,903	8.05 %	13,683,070	7.62 %
Core capital	16,782,950	9.55 %	16,374,992	9.12 %
Core capital requirement	7,026,793	4.00	7,178,459	4.00
Excess	\$ 9,756,157	5.55 %	9,196,533	5.12 %
Total Risk-Based Capital	17,946,864	15.28 %	17,474,737	14.64 %
Risk-based capital requirement	9,397,565	8.00	9,550,820	8.00
Excess	\$ 8,549,299	7.28 %	7,923,917	6.64 %
Total Bank Assets - Thrift Financial Report	\$ 176,560,000		180,354,000	
Adjusted Total Assets-Thrift Financial Report				
For Regulatory Capital Calculation	\$ 175,669,819		179,461,464	
Total Risk-Weighted Assets-Thrift Financial Report	\$ 117,469,569		119,385,250	

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

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Stockholders' equity of the Bank	\$ 17,673,131	\$ 17,267,528
Regulatory capital adjustment		
For mortgage servicing rights	(3,813)	(3,736)
For deferred tax assets	(770,850)	(808,740)
For available for sale securities	(115,518)	(80,060)
Tangible and core capital	\$ 16,782,950	\$ 16,374,992
Allowable general loan loss reserves	1,163,914	1,099,745
Total Risk- Based Capital	\$ 17,946,864	\$ 17,474,737

Legal Proceedings. The Bank is, from time to time, a party to certain lawsuits in the ordinary course of its business, wherein it enforces its security interest. In addition, we are involved in the following litigations:

Tokarski vs. American Savings, FSB. The Bank is involved in litigation with Steve Tokarski, the successor personal representative of the Estate of John Wroblewski. The suit was filed in June 2007 in the Superior Court of Lake County Indiana (Cause #45D040706CC00075) and involved multiple claims, including alleged negligence by the Bank in the cashing of two checks totaling \$513,106 as well as an alleged subsequent conversion by the Bank of \$154,800 of the aforementioned funds, which had been placed in a restricted deposit account, to satisfy two delinquent loans. The suit claimed that the Bank violated a notice of restriction placed on the deposit account by applying funds without proper written consents and that the Bank assisted an individual, whom the Bank believed was acting on behalf of John Wroblewski under a power of attorney, in misappropriating funds belonging to the Estate by cashing the checks mentioned above.

On April 11, 2011, the Motion for Summary Judgment in this case was entered in favor of the Plaintiff Tokarski in the amount of \$513,106.

The Bank notified its insurance carrier as to the Summary Judgment and requested a coverage analysis as to the Summary Judgment. The initial claim was filed under the Bank's Directors and Officers/Company Liability Policy, which has a \$1,000,000 annual limit of liability and \$25,000 retention per claim. The retention amount was satisfied in March 2011 with respect to attorney's fees as the insurance carrier now reimburses the Bank for attorney's fees related to this matter.

The insurance carrier conducted an initial coverage analysis based upon the Summary Judgment and indicated that the policy's definition of loss excludes disgorgement as it relates to the restricted deposit account in the amount of \$154,800 used by the Bank to satisfy two delinquent loans. As such, the portion of the judgment related to this conversion, which amounts to \$154,800, is not covered under the Bank's insurance policy because it involves disgorgement. The analysis further indicated that, based upon the facts presented, the remaining portion of the judgment in the amount of \$358,306 appears to be covered under the Bank's insurance policy.

The Bank is appealing the entirety of the judgment and has filed a Notice of Appeal from the Lake Superior Court on May 10, 2011. On July 6, 2011, the Court accepted a Supersedeas Bond filed by the Company and therefore the execution on the Judgment was stayed pending final disposition of our appeal.

When a loss from a contingency becomes probable and estimable, the Bank establishes an accrual. The accrual reflects management's estimate of the probable cost of resolution of the matter based on what information is currently known and is revised as facts and circumstances change. As a result of the above known facts, the Bank has recorded a pre-tax charge to current operations in the amount of \$154,800. No significant additional expenses relating to this litigation are anticipated at this time.

Trevino vs. AMB Financial Corp. The Company is involved in litigation with Juan Trevino for alleged injuries sustained on May 15, 2008 at one of the Company's locations. The suit was filed in April 2009 in the Superior Court of Lake County Indiana (Cause #450040904CT00148) and involves an employee of AT&T who was on Bank premises on a service call and alleges the Company was at fault in causing

the plaintiff to trip and fall, including failure to provide adequate lighting, failure to warn of known dangers, and failure to exercise reasonable care for the safety of its invitees. The Bank intends to vigorously defend the litigation and counsel is of the opinion that the Bank has strong legal and factual defenses, which should permit the Bank to successfully defend the litigation. The complaint seeks recovery of damages of an unspecified amount. The Company maintains liability insurance coverage of \$5.0 million. A trial date of March 5, 2012 has been scheduled. At this time, the outcome of this litigation is still in question, and the amount of potential loss, if any, cannot be estimated.