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# 2011 Annual Report

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## PRESIDENT'S MESSAGE

Fellow Stockholders:

For more than three years our national economy has been mired by high unemployment, low consumer demand for durable goods, a lagging housing market and investment rates of return less than 1.00%. Although not many new jobs are being created in southwestern Indiana, our unemployment rate seems to be stabilizing as fewer companies are laying off employees.

In 2009, 140 banks insured by the Federal Deposit Insurance Corporation (FDIC) failed, and that number increased to 156 in 2010. As of this writing, 71 banks have been closed in 2011. The bank failure crisis affected us locally as Integra Bank, founded in 1850, surrendered its charter to the FDIC on July 29, 2011, and was then acquired by Old National Bank.

We continue to be challenged by historically low interest rates. As it was a year ago, the quoted rate on a 30-year, fixed-rate mortgage loan is below 4.00%. Recent action taken by the Federal Reserve Open Market Committee (FOMC) has resulted in the yield on the ten-year Treasury note dropping to 1.85% compared to 2.50% twelve months ago. The FOMC has substantially exhausted its quiver of arrows regarding monetary policy, but at its recent meeting decided to implement Operation Twist. Operation Twist involves the Federal Reserve selling short-term securities and purchasing longer-term securities. The net effect of this policy will be to raise short-term interest rates and reduce longer-term rates which, in theory, would 1) stimulate a stagnant housing market through lower mortgage rates, 2) induce corporations to invest in plant expansion and hire additional employees, 3) lower unemployment, 4) lead to a higher consumer confidence level and, ultimately, cause the economy to rebound. The Federal Reserve has also publicly stated that the federal funds rate will remain near zero percent until at least the middle of 2013.

The Consumer Financial Protection Bureau, which was created by Dodd-Frank Financial Reform Act, has started operations and is charged with creating and enforcing regulations designed to protect consumers from predatory bank practices. The 2,100 page law is anticipated to spawn over 5,000 pages of consumer regulation. Even though First Federal has not engaged in the practices this legislative action was intended to prevent, we have expanded the Compliance Department to two full-time positions in anticipation of the additional regulatory burden.

Clearly, the failure of a local bank is not good for its community, employees or shareholders. Nonetheless, it presents our Company with opportunities for both personal/retail and commercial relationship growth. The Company has taken an aggressive approach and has hired four additional staff members in the Evansville market – four former Integra branch managers with commercial relationship banking backgrounds. For the Petersburg/Washington area, we have hired Max Elliott, who will lead the Home Building Saving Bank branches, along with a new commercial/agricultural lender. We expect all of the new officers to immediately fuel branch growth and expand commercial relationships. The Company is also exploring the possibility of additional branch locations to better service our existing customer base and to pursue future growth.

The credit quality of our loan portfolio appears to be stabilizing. Nevertheless, the Company remains committed to maintaining prudent loan loss reserves to combat unforeseen future portfolio problems. The Company did have charges of \$739,200 for the other-than-temporary impairment (OTTI) of certain investment securities purchased prior to the disruptions in the financial markets. These charges do not represent a realized loss but rather the difference between the carrying value and the present value of the assumed cash flows. Unfortunately, under GAAP rules the securities cannot be written back up should the respective cash flow projections improve.

Due in part to the OTTI charge, earnings for fiscal 2011 were \$903,000 or \$0.52 per fully diluted share down from \$1,391,000 or \$0.80 per fully diluted share in fiscal 2010. Management continues to assess all departments in the bank to increase revenues and/or reduce expenses. In particular, we believe expanding our commercial lending presence is a key to generating greater interest and fee income.

First Federal's risk-based capital ratio of 15.46% at June 30, 2011, compared favorably to the 14.25% a year earlier. At 9.09%, the bank's core capital ratio was little changed from the 9.22% at June 30, 2010. These ratios far exceeded the minimum regulatory capital requirements of 4% for core capital and 8% for risk-based capital, and qualify First Federal as "well-capitalized" by interagency regulatory standards.

Harold Duncan, who has served the bank for 47 years, first as an officer, then as President and Chief Executive Officer, and finally as Chairman of the Board of Directors, will retire from active Board service, due to the age limitations in the Company's By-Laws. Mr. Duncan will remain a part of the First Bancorp and First Federal Savings Bank family serving as a Director Emeritus. We thank him for his leadership, commitment and many contributions to our Company's success.

In the face of the uncertain and likely volatile times ahead, management will remain vigilant on ways to increase efficiencies, improve profitability and, ultimately, enhance shareholder value. One such step is the pending conversion of First Federal from a federal savings bank to an Indiana-chartered commercial bank. The new charter will convey powers to expand the bank's product offerings while reducing the cost of regulatory oversight.

As always, on behalf of the Board of Directors and the Company's dedicated employees, I thank you for your investment in First Bancorp of Indiana, Inc.

A handwritten signature in black ink that reads "Mike".

Michael H. Head  
President and CEO  
First Bancorp of Indiana, Inc.

**AT OR FOR THE YEAR ENDED**

June 30, 2011 June 30, 2010 June 30, 2009

**SELECTED BALANCE SHEET DATA**
*(\$ Thousands)*

Total Assets .....	\$356,121	\$343,753	\$358,647
Investment securities.....	126,647	107,138	91,499
Loans receivable, net .....	150,019	170,722	204,252
Deposits.....	234,949	211,645	228,748
Borrowings.....	83,155	95,155	95,655
Stockholders' Equity .....	33,077	32,828	28,949

**SELECTED INCOME STATEMENT DATA**
*(\$ Thousands)*

Interest income.....	\$14,471	\$17,370	\$19,726
Interest expense.....	6,092	7,734	9,881
Net interest income .....	8,379	9,636	9,845
Provision for loan losses .....	550	1,150	1,800
Noninterest income .....	2,375	2,189	2,315
Noninterest expense .....	9,318	9,172	8,826
Income before income taxes .....	886	1,503	1,534
Provision for income taxes.....	(17)	112	179
Net Income.....	\$903	\$1,391	\$1,355

**PERFORMANCE RATIOS**

Return on average assets .....	0.26%	0.39%	0.37%
Return on average equity .....	2.76	4.43	4.60
Net interest margin.....	2.67	3.03	2.99
Average interest-earning assets to average interest-bearing liabilities.....	105.90	104.32	104.10
Earnings per share, fully-diluted.....	\$0.52	\$0.80	\$0.79

**ASSET QUALITY RATIOS**

Nonperforming loans to total loans.....	2.04%	1.27%	0.98%
Nonperforming assets to total assets.....	1.76	1.64	1.46
Allowance for loan losses to total loans .....	1.30	1.12	0.84
Allowance for loan losses to nonperforming loans.....	63.81	87.82	85.67

**CAPTIAL RATIOS**

Average equity to average assets .....	9.36%	8.87%	8.08%
Equity to total assets .....	9.29	9.55	8.07
Tangible and core capital (bank only).....	9.09	9.22	8.40
Risk-based capital (bank only).....	15.46	14.25	12.79

**SHAREHOLDER DATA**

Weighted average shares outstanding: (for the year ended)			
Basic.....	1,748,660	1,727,949	1,713,038
Diluted.....	1,748,660	1,729,173	1,713,497
Outstanding shares (issued less treasury shares) at June 30 .....	1,749,742	1,750,978	1,742,452

## BOARD OF DIRECTORS

Harold Duncan	Chairman of the Board
Michael H. Head	President and CEO, First Federal Savings Bank
Timothy A. Flesch	President and CEO, St. Mary's Health System
E. Harvey "Skip" Seaman III	President and CEO, Product Acceptance & Research
David E. Gunn, CPA	President, Gunn Group, LLC
Daniel L. Schenk	Chancellor, Ivy Tech Community College
Gregory L. Haag	President, Haag Heating & Air Conditioning, Inc.
James L. Will, Jr.	Risk Manager, Gribbins Insulation Co.

## EXECUTIVE MANAGEMENT

### OFFICERS OF FIRST BANCORP OF INDIANA, INC.

Michael H. Head	President and CEO
Kirby W. King	Vice President
George J. Smith	Treasurer and CFO
Ruthanne Orth	Corporate Secretary

### OFFICERS OF FIRST FEDERAL SAVINGS BANK

Michael H. Head	President and CEO
Kirby W. King	Executive Vice President and COO
George J. Smith	Executive Vice President and CFO
Max D. Elliott	Senior Vice President
Michael Griffin	Senior Vice President
Dale Holt	Senior Vice President
Julie R. List	Senior Vice President
Monica L. Stinchfield	Senior Vice President
Richard S. Witte	Senior Vice President
Rick Heldt	Senior Vice President and Controller
Ruthanne Orth	Vice President and Corporate Secretary

### GENERAL COUNSEL

Bamberger, Foreman,  
Oswald & Hahn, LLP  
20 NW 4th Street  
Evansville, Indiana 47708

### SECURITIES COUNSEL

Kilpatrick Townsend & Stockton LLP  
Suite 900  
607 14th Street, NW  
Washington, DC 20005-2018

### INDEPENDENT AUDITORS

Monroe Shine & Co., Inc.  
222 E. Market St.  
New Albany, Indiana 47150

### TRANSFER AGENT

Registrar and Transfer Company  
10 Commerce Drive  
Cranford, New Jersey 07016

### AUDITED FINANCIAL INFORMATION

The audited financial statements will be available for viewing or printing at:  
[www.firstfedevansville.com](http://www.firstfedevansville.com)

A copy may also be requested by writing to:  
George J. Smith, Treasurer and Chief Financial Officer,  
First Bancorp of Indiana, Inc., P.O. Box 1111, Evansville, IN 47706-1111

## BANK LOCATIONS



### Corporate Headquarters

5001 Davis Lant Drive  
(812) 492-8104

### Franklin Street Office

2200 W. Franklin St.  
(812) 492-8102

### North Park Office

4451 N. First Ave.  
(812) 492-8105

### Newburgh Office

Highway 66 in Bell Oaks  
(812) 492-8106

### Bellemeade Office

4601 Bellemeade Ave.  
(812) 492-8107

### University West Office

4615 University Dr.  
(812) 492-8108

### St. Philip Office

2950 St. Philip Road South  
(812) 492-8109



### Petersburg Office

501 Main Street  
(812) 354-8713

### Washington Office

200 E. VanTrees Street  
(812) 254-2641