First Bancorp of Indiana, Inc.

Accountants' Reports and Consolidated Financial Statements

June 30, 2009 and 2008

BKD LLP
CPAs & Advisors

First Bancorp of Indiana, Inc.

June 30, 2009 and 2008

Contents

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CPAs & Advisors

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Independent Accountants' Report

Board of Directors
First Bancorp of Indiana, Inc.
Evansville, Indiana

We have audited the accompanying consolidated balance sheets of First Bancorp of Indiana, Inc. (Company) as of June 30, 2009 and 2008, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 19 the Company changed its method of accounting for fair value measurements in accordance with Statement of Financial Accounting Standards No. 157.

BKD, LLP

Evansville, Indiana
October 2, 2009

First Bancorp of Indiana, Inc.

Consolidated Balance Sheets

June 30, 2009 and 2008

Assets

	2009	2008
Cash and due from banks	$ 1,404,041	$ 7,242,618
Interest-bearing demand deposits with banks	22,474,975	16,657,396
Federal funds sold	820,582	496,856
Cash and cash equivalents	24,699,598	24,396,870
Interest-bearing deposits	99,000	494,525
Available-for-sale securities	67,655,451	77,034,732
Held-to-maturity securities	23,742,104	14,716,431
Trading securities	101,706	-
Loans held for sale	2,578,800	419,200
Loans, net of allowance for loan losses of $1,734,195 and $1,545,039 at June 30, 2009 and 2008, respectively	201,673,073	226,054,628
Premises and equipment	9,530,009	9,164,760
Federal Home Loan Bank stock	4,564,700	4,564,700
Goodwill	6,229,152	6,229,152
Core deposit intangible	683,077	777,295
Other assets	17,090,394	13,493,652
Total assets	$ 358,647,064	$ 377,345,945

Liabilities and Stockholders' Equity

	2009	2008
Liabilities		
Deposits		
Noninterest-bearing	$ 12,896,445	$ 10,049,319
Interest-bearing	215,851,449	234,003,857
Total deposits	228,747,894	244,053,176
Borrowings	95,655,000	95,654,944
Advances from borrowers for taxes and insurance	970,401	1,020,587
Other liabilities	4,324,429	5,042,286
Total liabilities	329,697,724	345,770,993
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, $0.01 par value; authorized and unissued 1,000,000 shares		
Common stock, $0.01 par value; authorized 9,000,000 shares; issued 2009 and 2008 – 2,526,546 shares	25,265	25,265
Additional paid-in capital	27,591,809	27,390,180
Retained earnings	18,504,073	18,230,854
Accumulated other comprehensive loss		
Unrealized depreciation on available-for-sale securities, net of income taxes 2009 – $(3,211,000); 2008 – $(964,000)	(4,861,272)	(1,650,631)
	41,259,875	43,995,668
Unreleased employee stock ownership plan shares 2009 – 22,720 shares; 2008 – 37,870 shares	(231,935)	(386,588)
Treasury stock, at cost 2009 – 784,094 shares; 2008 – 778,658 shares	(12,078,600)	(12,034,128)
Total stockholders' equity	28,949,340	31,574,952
Total liabilities and stockholders' equity	$ 358,647,064	$ 377,345,945

First Bancorp of Indiana, Inc.
Consolidated Statements of Income
Years Ended June 30, 2009 and 2008

	2009	2008
Interest Income		
Loans	$ 14,325,306	$ 15,824,738
Investment securities	4,754,915	4,492,612
Deposits with banks	120,614	403,379
Federal funds sold	4,193	7,062
Other	155,261	225,781
Total interest income	19,360,289	20,953,572
Interest Expense		
Deposits	5,559,153	8,699,020
Borrowings	4,322,170	4,228,701
Total interest expense	9,881,323	12,927,721
Net Interest Income	9,478,966	8,025,851
Provision for Loan Losses	1,800,000	1,090,000
Net Interest Income After Provision for Loan Losses	7,678,966	6,935,851
Noninterest Income		
Service charges on deposit accounts	834,246	814,866
Net gains on sales of loans	717,468	182,131
ATM transaction and POS interchange fees	318,863	331,394
Increase in cash surrender value of life insurance	333,750	202,113
Other	576,153	718,550
Total noninterest income	2,780,480	2,249,054
Noninterest Expense		
Salaries and employee benefits	4,256,585	4,204,604
Net occupancy expense	848,934	733,085
Equipment expense	505,148	490,967
Data processing fees	501,880	512,453
Legal and professional fees	203,830	217,425
Amortization of intangible assets	94,218	117,136
Advertising	222,820	244,418
Losses on trading activities	99,693	-
Other	2,192,486	1,754,060
Total noninterest expense	8,925,594	8,274,148
Income Before Income Taxes	1,533,852	910,757
Provision for Income Taxes	179,025	107,257
Net Income	$ 1,354,827	$ 803,500

First Bancorp of Indiana, Inc.

Consolidated Statements of Stockholders' Equity

Years Ended June 30, 2009 and 2008

	Comprehensive Income (Loss)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Unallocated ESOP Shares	Treasury Stock	Total
Balance, June 30, 2007		$ 25,663	$ 27,959,954	$ 18,801,944	$ (683,548)	$ (541,241)	$ (11,344,934)	$ 34,217,838
Net income	$ 803,500	-	-	803,500	-	-	-	803,500
Dividends on common stock, $.76 per share	-	-	-	(1,374,590)	-	-	-	(1,374,590)
Purchase of treasury stock (60,065 shares)	-	-	-	-	-	-	(796,340)	(796,340)
Exercise of stock options (6,852 shares)	-	-	(44,622)	-	-	-	107,146	62,524
Employee Stock Ownership Plan shares allocated (15,150 shares)	-	-	47,715	-	-	154,653	-	202,368
Tax benefit of employee benefit plans	-	-	57,755	-	-	-	-	57,755
Purchase of fractional shares in connection with reverse split	-	(398)	(630,622)	-	-	-	-	(631,020)
Change in unrealized depreciation on available-for-sale securities, net of income tax benefit of $545,000	(967,083)	-	-	-	(967,083)	-	-	(967,083)
Comprehensive loss	$ (163,583)							
Balance, June 30, 2008		25,265	27,390,180	18,230,854	(1,650,631)	(386,588)	(12,034,128)	31,574,952
Net income	$ 1,354,827	-	-	1,354,827	-	-	-	1,354,827
Dividends on common stock, $0.62 per share	-	-	-	(1,081,608)	-	-	-	(1,081,608)
Purchase of treasury stock (5,436 shares)	-	-	-	-	-	-	(44,472)	(44,472)
Employee Stock Ownership Plan shares allocated (15,150 shares)	-	-	(29,391)	-	-	154,653	-	125,262
Tax benefit of employee benefit plans	-	-	231,020	-	-	-	-	231,020
Change in unrealized depreciation on available-for-sale securities, net of income tax benefit of $1,973,000	(3,210,641)	-	-	-	(3,210,641)	-	-	(3,210,641)
Comprehensive loss	$ (1,855,814)							
Balance, June 30, 2009		$ 25,265	$ 27,591,809	$ 18,504,073	$ (4,861,272)	$ (231,935)	$ (12,078,600)	$ 28,949,340

First Bancorp of Indiana, Inc.

Consolidated Statements of Cash Flows

Years Ended June 30, 2009 and 2008

	2009	2008
Operating Activities		
Net income	$ 1,354,827	$ 803,500
Items not requiring (providing) cash		
Provision for loan losses	1,800,000	1,090,000
Depreciation	520,042	479,146
Investment securities accretion, net	(158,789)	(109,722)
Amortization of net loan origination fees	(240,629)	(322,112)
Amortization of goodwill and intangible assets	94,218	117,136
Deferred income taxes	(59,000)	96,000
Increase in cash surrender value of life insurance in excess of premiums paid	(333,750)	(202,113)
Transfer securities from available for sale to trading	99,693	-
Loans originated for sale	(31,323,625)	(7,801,100)
Proceeds from sales of loans	32,041,093	7,983,231
Net gain on loan sales	(717,468)	(182,131)
Charge to write down real estate owned	526,327	-
Gain on sale of real estate owned	(13,246)	-
Loss on sale of premises and equipment	4,243	6,429
Compensation expense related to employee stock ownership plan	125,262	202,368
Tax benefit of employee benefit plans	231,020	57,755
Changes in		
Other assets	(998,985)	(754,754)
Other liabilities	(717,857)	692,681
Net cash provided by operating activities	2,233,376	2,156,314
Investing Activities		
Net change in interest-bearing deposits	395,525	1,121,475
Proceeds from maturities of available-for-sale securities	33,624,954	37,382,332
Proceeds from maturities of held-to-maturity securities	1,802,838	1,671,017
Purchases of available-for-sale securities	(29,629,729)	(50,592,467)
Purchases of held-to-maturity securities	(10,846,038)	(1,433,955)
Proceeds from sales of available-for-sale securities	59,986	-
Net change in loans	20,662,584	5,995,265
Purchases of premises and equipment	(893,633)	(346,011)
Proceeds from sales of premises and equipment	12,585	31,335
Improvements to real estate owned	(11,418)	-
Sale of real estate owned	48,246	-
Purchase life insurance policies	(675,000)	-
Net cash provided by (used in) investing activities	14,550,900	(6,171,009)

First Bancorp of Indiana, Inc.

Consolidated Statements of Cash Flows

Years Ended June 30, 2009 and 2008

(Continued)

	2009	2008
Financing Activities		
Net increase in demand deposits, money market, NOW and savings accounts	$ 17,087,245	$ 32,356,927
Net decrease in certificates of deposit	(32,392,527)	(39,537,458)
Proceeds from issuance of long-term borrowings	-	38,155,000
Repayments of long-term borrowings	-	(15,000,000)
Net increases (decreases) in advances from borrowers for taxes and insurance	(50,186)	325,536
Dividends paid	(1,081,608)	(1,374,590)
Purchase of treasury shares	(44,472)	(796,340)
Exercise of stock options	-	62,524
Purchase of fractional shares in connection with reverse split	-	(631,020)
Net cash provided by (used in) financing activities	(16,481,548)	13,560,579
Increase in Cash and Cash Equivalents	302,728	9,545,884
Cash and Cash Equivalents, Beginning of Year	24,396,870	14,850,986
Cash and Cash Equivalents, End of Year	$ 24,699,598	$ 24,396,870
Supplemental Cash Flows Information		
Interest paid	$ 10,667,549	$ 12,659,983
Income taxes paid, net of refunds	$ 277,264	$ (194,935)
Real estate acquired in settlement of loans	$ 4,023,876	$ -
Real estate sold on contract	$ 314,038	$ -

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The accounting and reporting policies of First Bancorp of Indiana, Inc. (Company) and its wholly owned subsidiaries, First Federal Savings Bank (Bank) and First Bancorp of Indiana Statutory Trust I (Trust), conform to accounting principles generally accepted in the United States of America and reporting practices followed by the thrift industry. The Bank operates some of its branches under Home Building Savings Bank (HBSB), a division of the Bank. The Bank has four wholly owned subsidiaries, FFSL Service Corporation (FFSL), FFSB Financial Corporation (FFSB Financial), FBEI Investments, Inc. (FBEII) and White River Service Corporation (WRSC). The more significant policies are described below.

The Company is a savings and loan holding company whose principal activity is the ownership and management of the Bank. The Bank operates under a federal savings bank charter and provides full banking services in a single significant business segment. As a federally chartered savings bank, the Bank is subject to regulation by the Office of Thrift Supervision and the Federal Deposit Insurance Corporation (FDIC).

The Bank generates commercial, mortgage and consumer loans and receives deposits from customers located primarily in Vanderburgh County and Daviess County, Indiana and surrounding counties. The Bank’s loans are generally secured by specific items of collateral, including real property and consumer assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors’ ability to honor their contracts is dependent upon economic conditions in Southwestern Indiana.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, Bank, FFSL, FBEII, FFSB Financial and WRSC. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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 disclosure 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.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties.

Cash Equivalents and Cash Concentration

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. The Bank maintains cash in bank deposit accounts, which at times may exceed federally insured limits. At June 30, 2009, the Company's cash accounts exceeded federally insured limits by approximately $19,501,000, which is materially all on deposit with the Federal Reserve Bank (FRB) and Federal Home Loan Bank (FHLB), which are not insured by the FDIC.

Trading Activities

Securities that are held principally for resale in the near term are recorded in the trading assets account at fair value with changes in fair value recorded in earnings. Interest and dividends are included in net interest income.

Quoted market prices, when available, are used to determine the fair value of trading instruments. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of instruments with similar characteristics or discounted cash flows.

Trading securities, which include any security for which the Company has the intent to sell in the near term, are carried at fair value. Changes in fair market value are recorded, net of related income tax effects, through the statements of income.

Securities

Available-for-sale securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are carried at fair value. Unrealized gains and losses are recorded, net of related income tax effects, in other comprehensive income (loss).

Held-to-maturity securities, which include any security for which the Company has the positive intent and ability to hold until maturity, are carried at historical cost adjusted for amortization of premiums and accretion of discounts.

Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for any charge-offs, the allowance for loan losses, any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Generally, loans are placed on nonaccrual status at 90 days past due and interest is considered a loss, unless the loan is well-secured and in the process of collection.

Discounts and premiums on purchased residential real estate loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments. Discounts and premiums on purchased consumer loans are recognized over the expected lives of the loans using methods that approximate the interest method.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and depreciated using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter.

Federal Home Loan Bank Stock

FHLB stock is a required investment for institutions that are members of the FHLB system. The required investment in the common stock is based on a predetermined formula.

Goodwill

Goodwill is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

Intangible Assets

Intangible assets consist of core deposit intangibles associated with acquisitions and are being amortized over approximately 10 years on the straight-line basis. The intangible assets are periodically evaluated as to the recoverability of their carrying value.

Mortgage and Consumer-servicing Rights

Mortgage and consumer-servicing rights on originated loans that have been sold are initially recorded at fair value. Capitalized servicing rights are amortized in proportion to and over the period of estimated servicing revenues. Impairment of mortgage and consumer loan servicing rights is assessed based on the fair value of those rights. Fair values are estimated using discounted cash flows based on a current market interest rate. For purposes of measuring impairment, the rights are stratified based on the predominant risk characteristics of the underlying loans. The predominant characteristic currently used for stratification is type of loan. The amount of impairment recognized is the amount by which the capitalized servicing rights for a stratum exceed their fair value.

Income Taxes

Deferred tax liabilities and assets are recognized for the tax effects of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized. The Company files consolidated income tax returns with its subsidiaries.

Stock Options

At June 30, 2009, the Company has a stock-based employee compensation plan, which is described more fully in Note 19. The Company accounts for this plan under the recognition and measurement principles of SFAS 123R, *Share-Based Payment*.

(Table Dollar Amounts in Thousands, Except Share Data)

Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 financial statement presentation. These reclassifications had no effect on net earnings.

Note 2: Restriction on Cash and Due From Banks

The Bank is required to maintain reserve funds in cash and/or on deposit with the FRB. The reserve required at June 30, 2009, was $1,961,000.

Note 3: Trading Activities

The fair value of trading assets are as follows:

	June 30	
	2009	**2008**
Trading assets, at fair value		
Retained interest in auto loan securitization	$ -	$ 1,441
Equity securities	102	-
	$ 102	$ 1,441

The retained interest in auto loan securitization is included in other assets on the Company's consolidated balance sheets.

(Table Dollar Amounts in Thousands, Except Share Data)

Note 4: Investments

Available-for-Sale Securities

The amortized cost and approximate fair values of securities classified as available for sale are as follows:

	June 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
Mortgage-backed securities	$ 44,153	$ 602	$ (4,834)	$ 39,921
U.S. Government agencies	27,456	80	(199)	27,337
Corporate obligations	3,845	-	(3,448)	397
	$ 75,454	$ 682	$ (8,481)	$ 67,655

	June 30, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
Mortgage-backed securities	$ 52,429	$ 147	$ (1,462)	$ 51,114
U.S. Government agencies	22,747	40	(359)	22,428
Corporate obligations	4,242	-	(903)	3,339
Equity securities	232	-	(78)	154
	$ 79,650	$ 187	$ (2,802)	$ 77,035

(Table Dollar Amounts in Thousands, Except Share Data)

The amortized cost and fair value of available-for-sale securities at June 30, 2009, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale	
	Amortized Cost	Fair Value
Within one year	$ 499	$ 503
One to five years	494	524
Five to ten years	-	-
After ten years	30,308	26,707
	31,301	27,734
Mortgage-backed securities	44,153	39,921
	$ 75,454	$ 67,655

Held-to-Maturity Securities

The amortized cost and approximate fair values of securities classified as held to maturity are as follows:

	June 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
Mortgage-backed securities	$ 1,470	$ 60	$ -	$ 1,530
Municipal bonds	22,272	219	(775)	21,716
	$ 23,742	$ 279	$ (775)	$ 23,246

	June 30, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
Mortgage-backed securities	$ 1,909	$ 41	$ -	$ 1,950
Municipal bonds	11,828	36	(174)	11,690
Collateralized auto obligations	979	7	-	986
	$ 14,716	$ 84	$ (174)	$ 14,626

(Table Dollar Amounts in Thousands, Except Share Data)

The amortized cost and fair value of held-to-maturity securities at June 30, 2009, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Held to Maturity	
	Amortized Cost	Fair Value
Within one year	$ 260	$ 262
One to five years	263	275
Five to ten years	5,561	5,599
Over ten years	16,188	15,580
	22,272	21,716
Mortgage-backed securities	1,470	1,530
	$ 23,742	$ 23,246

Securities with a carrying value of approximately $58,036,000 at June 30, 2009, and $47,084,000 at June 30, 2008, were pledged as collateral to secure FHLB advances and repurchase agreements.

Equity securities amounting to $60,000 were sold during 2009.

Equity securities with a fair value of $102,000 were reclassified from available for sale to trading in fiscal 2009. Included in earnings is a loss of $100,000 related to this transfer. There were no other securities gains or losses recorded during the year with respect to trading securities still held.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at June 30, 2009 and 2008, was $47,655,000 and $62,681,000, respectively, which is approximately 52% and 68% of the Company’s available-for-sale and held-to-maturity investment portfolios, respectively.

Based on evaluation of available evidence, including recent changes in market interest rates and information from regulatory filings, management believes the declines in fair value for these securities are temporary.

Should the impairment of any these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

(Table Dollar Amounts in Thousands, Except Share Data)

The following tables show the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30.

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
June 30, 2009						
U.S. Government agencies	$ 13,773	$ (199)	$ -	$ -	$ 13,773	$ (199)
Mortgage-backed securities	8,397	(1,520)	9,439	(3,314)	17,836	(4,834)
Municipal bonds	12,979	(425)	2,670	(350)	15,649	(775)
Corporate obligations	-	-	397	(3,448)	397	(3,448)
Total temporarily impaired securities	$ 35,149	$ (2,144)	$ 12,506	$ (7,112)	$ 47,655	$ (9,256)

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
June 30, 2008						
U.S. Government agencies	$ 19,410	$ (359)	$ -	$ -	$ 19,410	$ (359)
Mortgage-backed securities	26,949	(1,087)	5,612	(375)	32,561	(1,462)
Municipal bonds	7,960	(174)	-	-	7,960	(174)
Corporate obligations	2,499	(899)	97	(4)	2,596	(903)
Equity securities	154	(78)	-	-	154	(78)
Total temporarily impaired securities	$ 56,972	$ (2,597)	$ 5,709	$ (379)	$ 62,681	$ (2,976)

Mortgage-backed Securities

The unrealized losses on the Company's investment in mortgage-backed securities were generally caused by interest rate changes. The Company expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2009.

(Table Dollar Amounts in Thousands, Except Share Data)

Corporate Obligations

The Company's unrealized loss on investments in corporate obligations relates to five pooled trust securities. The unrealized loss was primarily caused by a number of factors, including overall instability in the financial markets, limited trading markets for these types of securities and poor performance by certain entities issuing the debt instruments. The Company has recognized a loss equal to the credit loss on one of the pooled trust securities in the amount of $7,650, establishing a new, lower amortized cost basis. The credit loss was calculated by comparing expected discounted cash flows based on performance indicators of the underlying assets in the security to the carrying value of the investment. Because the Company does not intend to sell the investment and it is not more likely than not the Company will be required to sell the investment before recovery of its new, lower amortized cost basis, which may be maturity, it does not consider the remainder of the investment in the Bank's securities to be other-than-temporarily impaired at June 30, 2009.

	2009
Other-than-temporary losses	
Total other-than-temporary impairment losses	$ (3,334)
Portion of loss recognized in other comprehensive income (before taxes)	3,326
Net impairment losses recognized in earnings	$ (8)

Note 5: Loans and Allowance for Loan Losses

Categories of loans at June 30 include:

	2009	2008
Mortgage loans		
One-to-four family	$ 80,658	$ 95,557
Construction	3,734	4,501
Commercial and multi-family	27,411	29,305
Commercial business loans	17,919	19,554
Consumer loans	66,863	73,368
Consumer lines of credit	7,058	5,840
Loans to depositors secured by savings	135	299
Total loans	203,778	228,424
Deferred loan (fees) costs, net	229	273
Undisbursed portion of construction loans	(600)	(1,097)
Allowance for loan losses	(1,734)	(1,545)
Net loans	$ 201,673	$ 226,055

(Table Dollar Amounts in Thousands, Except Share Data)

Activity in the allowance for loan losses was as follows:

	2009	2008
Balance, beginning of year	$ 1,545	$ 1,065
Provision charged to expense	1,800	1,090
Losses charged off, net of recoveries of $134 in 2009 and $93 in 2008	(1,611)	(610)
Balance, end of year	$ 1,734	$ 1,545

Loans delinquent 90 days or more and still accruing totaled $23,000 and $103,000 at June 30, 2009 and 2008, respectively. Nonaccruing loans at June 30, 2009 and 2008, were $2,001,000 and $354,000, respectively.

Impaired loans totaled $1,145,000 and $905,000 at June 30, 2009 and 2008, respectively. An allowance for loan losses of $300,000 and $500,000 related to impaired loans at June 30, 2009 and 2008, respectively. There were no impaired loans that had related allowance for loan losses at June 30, 2009 and 2008.

Interest of $27,350 and $88,000 was recognized on average impaired loans of $1,171,000 and $947,000 for 2009 and 2008, respectively. Interest of $30,000 and $84,000 was recognized on impaired loans on a cash basis during 2009 and 2008, respectively.

Note 6: Automobile Loan Securitization

In 2009, the Company exercised a clean-up call provision and purchased the remaining outstanding loans from the securitization.

Note 7: Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows:

	2009	2008
Land	$ 2,108	$ 2,108
Buildings	8,085	7,404
Equipment	2,570	2,298
Construction in progress	-	81
	12,763	11,891
Less accumulated depreciation	3,233	2,726
Net premises and equipment	$ 9,530	$ 9,165

(Table Dollar Amounts in Thousands, Except Share Data)

Note 8: Goodwill

The changes in the carrying amount of goodwill for the years ended June 30 were:

	2009	2008
Balance, beginning of year	$ 6,229	$ 6,229
Change in goodwill	-	-
Balance, end of year	$ 6,229	$ 6,229

Note 9: Other Intangible Assets

The carrying basis and accumulated amortization of recognized intangible assets at June 30 were:

	2009		2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core deposit intangible	$ 1,474	$ (791)	$ 1,474	$ (697)

Amortization expense for the years ended June 30, 2009 and 2008, was $94,200 and $117,100, respectively. Estimated amortization expense for each of the following five years is:

2010	$ 94
2011	94
2012	94
2013	94
2014	94
Thereafter	213
	$ 683

(Table Dollar Amounts in Thousands, Except Share Data)

Note 10: Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage loans serviced for others was $64,277,000 and $43,036,000 at June 30, 2009 and 2008, respectively. Contractually specified servicing fees, late fees and "ancillary fees" of approximately $116,000 and $103,000 are included in loan servicing fees in the consolidated statements of income at June 30, 2009 and 2008, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were approximately $679,000 and $455,000 at June 30, 2009 and 2008, respectively.

The aggregate fair value of capitalized mortgage-servicing rights at June 30, 2009 and 2008, approximated carrying value. A valuation model that calculates the present value of future cash flows was used to estimate fair value. For purposes of measuring impairment, risk characteristics including product type, investor type and interest rates were used to stratify the originated mortgage-servicing rights.

	2009	2008
Mortgage-servicing rights		
Balances, beginning of year	$ 473	$ 438
Servicing rights capitalized	322	89
Amortization of servicing rights	(182)	(54)
Balance, end of year	$ 613	$ 473

Consumer loans are also serviced for others and are not included in the accompanying consolidated balance sheets. The unpaid principal balances of consumer loans serviced for others totaled $0 and $11,707,000 at June 30, 2009 and 2008, respectively.

The aggregate fair value of capitalized consumer loan servicing rights at June 30, 2009 and 2008, approximated carrying value. A valuation model that calculates the present value of future cash flows was used to estimate fair value. For purposes of measuring impairment, risk characteristics including product type, investor type and interest rates were used to stratify the originated consumer loan servicing rights.

	2009	2008
Consumer-servicing rights		
Balance, beginning of year	$ 122	$ 277
Servicing rights capitalized	1	28
Amortization of servicing rights	(123)	(183)
Balance, end of year	$ -	$ 122

(Table Dollar Amounts in Thousands, Except Share Data)

Note 11: Other Assets and Other Liabilities

	2009	2008
Other assets		
Interest receivable		
Investment securities	$ 768	$ 941
Loans	890	928
Cash surrender value of life insurance	6,543	5,534
Real estate owned	3,180	20
Net deferred tax asset	3,203	1,174
Retained interest in auto loan securitization	-	1,441
Mortgage and consumer servicing rights	613	595
Prepaid expenses and other	1,893	2,860
Total other assets	$ 17,090	$ 13,493
Other liabilities		
Interest payable		
Deposits	$ 318	$ 1,104
Other borrowings	237	237
Deferred directors' fees and officers' compensation	588	695
Payments due investors on sold consumer loans	-	322
Outstanding cashier checks and money orders drawn on Bank	723	-
Accounts payable – dealer fees	50	100
Accrued expenses and other	2,408	2,584
Total other liabilities	$ 4,324	$ 5,042

Note 12: Deposits

	2009	2008
Demand deposits	$ 69,496	$ 71,463
Savings deposits	47,793	28,739
Certificates of deposit of $100,000 or more	74,831	74,869
Other certificates of deposit	36,628	68,982
Total deposits	$ 228,748	$ 244,053

(Table Dollar Amounts in Thousands, Except Share Data)

At June 30, 2009, the scheduled maturities of time deposits are as follows:

2010	$ 87,227
2011	17,410
2012	4,981
2013	806
2014	566
Thereafter	469
	$ 111,459

Time deposits at June 30, 2009 and 2008, included brokered deposits of $14,451,000 and $19,768,000, respectively.

Note 13: Income Taxes

The provision for income taxes includes these components:

	2009	2008
Taxes currently payable		
Federal	$ 281	$ 31
State	(43)	(20)
Deferred income taxes		
Federal	(51)	83
State	(8)	13
Income tax expense	$ 179	$ 107

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	2009	2008
Computed at the statutory rate (34%)	$ 522	$ 319
Increase (decrease) resulting from		
State income taxes, net of federal benefit	(34)	(5)
Cash surrender value of life insurance	(113)	(69)
Tax-exempt interest	(211)	(149)
Nondeductible expenses	24	51
Other	(9)	(40)
Actual tax expense	$ 179	$ 107

(Table Dollar Amounts in Thousands, Except Share Data)

The tax effects of temporary differences related to deferred taxes shown on the consolidated balance sheets in other assets were:

	2009	2008
Deferred tax assets		
Differences in accounting for loan losses	$ 643	$ 579
Deferred compensation and directors' fees	346	333
Unrealized losses on available-for-sale securities	2,937	966
Accrued vacation	64	64
Loss on impairment	-	141
Other adjustments from acquisition	37	47
State net operating loss carryforward	40	-
Other	373	177
	4,440	2,307
Deferred tax liabilities		
Differences in depreciation methods	(238)	(169)
Federal Home Loan Bank dividends	(150)	(160)
Mortgage-servicing rights	(227)	(177)
Consumer-servicing rights	-	(10)
State taxes	-	(8)
Deposit-based intangibles	(169)	(193)
Goodwill	(356)	(312)
Prepaid intangibles	(97)	(104)
	(1,237)	(1,133)
Net deferred tax asset	$ 3,203	$ 1,174

Retained earnings at June 30, 2009 and 2008, included approximately $4,102,000 for which no deferred income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions for tax purposes only. Reductions of amounts so allocated for purposes other than tax, bad debt losses or adjustment arising from carryback of net operating losses would create income for tax purposes only, which income would be subject to the then-current corporate income tax rate. The unrecorded deferred income tax liability on the above amount was approximately $1,395,000.

(Table Dollar Amounts in Thousands, Except Share Data)

Note 14: Borrowings

Borrowings consisted of the following components:

	2009	2008
FHLB advances		
Fixed rate of 4.35%, due in September 2015	$ 10,000	$ 10,000
Fixed rate of 3.70%, due in September 2015	10,000	10,000
Fixed rate of 4.14%, due in August 2017	5,000	5,000
Fixed rate of 3.91%, due in September 2017	5,000	5,000
Fixed rate of 3.32%, due in December 2017	5,000	5,000
Fixed rate of 3.49%, due in December 2017	5,000	5,000
Fixed rate of 3.43%, due in December 2017	5,000	5,000
Fixed rate of 5.37%, due in February 2011	10,000	10,000
Fixed rate of 4.83%, due in July 2011	10,000	10,000
Fixed rate of 4.61%, due in June 2017	15,000	15,000
Fixed rate of 4.98%, due in December 2010	2,000	2,000
Fixed rate of 4.30%, due in June 2010	500	500
Structured Repurchase Agreement 4.46%, due in July 2017	8,000	8,000
Junior subordinated debentures, 6.905%, due in September 2037	5,155	5,155
Total borrowings	$ 95,655	$ 95,655

The FHLB advances are secured by a blanket pledge of qualifying first-mortgage loans totaling $68,184,000 and investment securities with market values totaling $48,559,000 at June 30, 2009.

The repurchase agreement is secured by U.S. agency securities and such collateral is held by a third-party safekeeping agent. The maximum amount outstanding at any given month end during 2009 and 2008 was $8,000,000 and the monthly average of such agreements totaled $8,000,000 during 2009 and 2008.

The repurchase agreement at June 30, 2009, had a maturity date of July 17, 2017, with a rate of 4.46%, with options to terminate the transaction by the counterparty.

The junior subordinated debentures were issued to the Trust on August 1, 2007. The Trust is wholly owned by the Company. The debentures mature in September 2037 and bear a fixed interest rate of 6.905% for the first five years and 141 basis points over the three-month London Interbank Offered Rate for the remaining term. Interest is payable on a quarterly basis.

(Table Dollar Amounts in Thousands, Except Share Data)

Aggregate annual maturities of borrowings at June 30, 2009, were:

2010	$ 500
2011	12,000
2012	10,000
2013	-
2014	-
Thereafter	73,155
	$ 95,655

The Company has a $4,000,000 line of credit with the FHLB. There were no borrowings under this line of credit at June 30, 2009 and 2008. The line of credit matures in April 2010.

Note 15: Other Comprehensive Loss

Other comprehensive loss components and related taxes were as follows:

	2009	2008
Unrealized losses on securities available for sale and equity securities	$ (5,284)	$ (1,512)
Reclassification for realized amount included in income	100	-
Other comprehensive loss before tax effect	(5,184)	(1,512)
Tax benefit	(1,973)	(545)
Other comprehensive loss	$ (3,211)	$ (967)

The components of other comprehensive loss are the unrealized losses on securities available for sale.

Note 16: Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank’s assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank’s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

(Table Dollar Amounts in Thousands, Except Share Data)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of June 30, 2009 and 2008, that the Bank meets all capital adequacy requirements to which it is subject.

As of June 30, 2009, the most recent notification from the regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios are also presented in the table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2009						
Total capital (to risk-weighted assets)	$ 31,022	12.79%	$ 19,411	8.00%	$ 24,263	10.00%
Tier I capital (to risk-weighted assets)	$ 29,860	12.31%	$ 9,705	4.00%	$ 14,558	6.00%
Core capital (to adjusted total assets)	$ 29,860	8.40%	$ 14,213	4.00%	$ 17,766	5.00%
Core capital (to adjusted tangible assets)	$ 29,860	8.40%	$ 7,107	2.00%	N/A	N/A
Tangible capital (to adjusted total assets)	$ 29,860	8.40%	$ 5,330	1.50%	N/A	N/A
As of June 30, 2008						
Total capital (to risk-weighted assets)	$ 28,136	11.99%	$ 18,774	8.00%	$ 23,468	10.00%
Tier I capital (to risk-weighted assets)	$ 28,084	11.65%	$ 9,387	4.00%	$ 14,081	6.00%
Core capital (to adjusted total assets)	$ 28,084	7.60%	$ 14,773	4.00%	$ 18,467	5.00%
Core capital (to adjusted tangible assets)	$ 28,084	7.60%	$ 7,384	2.00%	N/A	N/A
Tangible capital (to adjusted total assets)	$ 27,962	7.57%	$ 5,540	1.50%	N/A	N/A

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. Current regulations allow the Bank to pay dividends to the Company not exceeding net income for the current year plus those for the preceding two years. The Bank normally restricts dividends to a lesser amount because of the need to maintain an adequate capital structure.

Note 17: Employee Benefit Plans

401(k) Plan

The Bank has a retirement savings Section 401(k) plan in which substantially all employees may participate. The Bank's expense for the plan was $100 and $8,000 for 2009 and 2008, respectively. Due to the withdrawal from the multi-employer pension plan, the Bank began providing a discretionary match of employees' contributions at the rate of 100% of the first 6% of base salary contributed by participants effective July 1, 2004. The Company match ceased on May 31, 2007.

Supplemental Retirement Plan

The Bank also has supplemental retirement plan arrangements for the benefit of certain officers. These arrangements are funded by life insurance contracts which have been purchased by the Bank. The Bank's expense for the plan was $169,000 and $161,000 for the years ended June 30, 2009 and 2008, respectively. The Bank also established deferred compensation arrangements with certain directors whereby; in lieu of currently receiving fees, the directors or their beneficiaries will be paid benefits for an established period following the director's retirement or death. These arrangements are also funded by life insurance contracts which have been purchased by the Bank. The Bank's expense for the plan was $56,000 and $49,000 for the years ended June 30, 2009 and 2008, respectively.

Employee Stock Ownership Plan

In 1999, the Bank established an employee stock ownership plan for the benefit of substantially all of its employees. At June 30, 1999, the ESOP had borrowed $874,000 from the Company and used those funds to acquire 87,400 shares of the Company's stock at $10 per share. During 2000, the ESOP borrowed an additional $980,000 from the Company and used those funds to acquire 94,392 shares of the Company's stock at an average price of $10.39 per share.

The Bank makes annual contributions to the ESOP equal to the ESOP's debt service less dividends received by the ESOP. All dividends received by the ESOP are used to pay debt service. The ESOP shares initially were pledged as collateral for its debt. As the debt is repaid, shares are released from collateral and allocated to plan participants, based on the proportion of debt service paid in the year to total expected debt service. The Bank accounts for its ESOP in accordance with Statement of Position 93-6. Accordingly, the shares pledged as collateral are reported as unreleased ESOP shares in the consolidated balance sheets. As shares are committed to be released from collateral, the Bank reports compensation expense equal to the current fair value of the shares. Dividends on allocated ESOP shares are recorded as a reduction of retained earnings; dividends on unallocated ESOP shares are recorded as a reduction of debt and accrued interest.

(Table Dollar Amounts in Thousands, Except Share Data)

Stock totaling 15,150 shares for each of the years 2009 and 2008, with an average fair value of $8.27 and $13.27, respectively, per share, were released or committed to be released, resulting in ESOP compensation expense of approximately $125,000 and $202,000, respectively. Shares held by the ESOP at June 30 were as follows:

	2009	2008
Allocated shares	116,289	106,902
Shares committed to be released	1,692	1,823
Unreleased shares	30,273	45,429
Total ESOP shares	148,254	154,154
Fair value of unallocated shares at June 30	$ 233,102	$ 465,647

Management Recognition Plan

On April 25, 2000, the Company established a Management Recognition Plan (MRP) to enable the Company to retain executive personnel of experience and ability in key positions of responsibility. Under the MRP, the board of directors was authorized to acquire and grant 90,896 shares of the Company's common stock. The funds used to acquire these shares were contributed by the Bank. Participants vested in shares awarded under the MRP over five years at the rate of 20% per year. As of June 30, 2000, all 90,896 shares authorized under the plan had been granted. As of June 30, 2005, all 90,896 shares had vested. No expense was recognized under the MRP during the years ended June 30, 2009 or 2008.

Note 18: Stock Option Plan

The Company has a shareholder-approved stock option plan under which 327,240 shares were reserved for future issuance by the Company to directors and employees of the Company and the Bank. The plan has a term of 10 years, after which no awards may be made, unless earlier terminated by the board of directors. During 2009 and 2008, no options were granted.

Under the Company's stock option plan, the Company grants selected executives and other key employees stock option awards which vest according to a schedule fixed by a committee made up of two or more "disinterested" directors of the Company. The options become fully exercisable upon vesting. The Company generally issues shares from treasury stock to satisfy exercises of stock options.

(Table Dollar Amounts in Thousands, Except Share Data)

The following is a summary of the status of the Company's stock option plan and changes in that plan as of and for the year ended June 30, 2009.

Options	Shares	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term
Outstanding, beginning of year	82,711	$ 13.35	
Granted	-	-	
Exercised	-	-	
Forfeited/expired	-	-	
Outstanding, end of year	82,711	$ 13.35	2.6 years
Options exercisable at year end	82,711	$ 13.35	2.6 years

There were no options granted during the years ended June 30, 2009 or 2008. The total intrinsic value of options exercised during the years ended June 30, 2009 and 2008, was $0 and $39,000, respectively.

Cash received from option exercises for the years ended June 30, 2009 and 2008, was approximately $0 and $63,000, respectively. The actual tax benefit realized for the tax deductions from option exercises totaled $0 and $21,000 for the years ended June 30, 2009 and 2008, respectively.

Note 19: Disclosures About Fair Value of Assets and Liabilities

Effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the year.

FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the inputs and valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Trading and Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include equity securities classified as trading. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include mortgage-backed, U.S. Government agency and corporate bonds classified as available-for-sale securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include certain collateralized debt obligations. Level 3 fair value on corporate obligations was determined using a discounted cash flow model that incorporated market estimates of interest rates and volatility in markets that have not been active.

Third-party vendors compile prices from various sources and may apply such techniques as matrix pricing to determine the value of identical or similar investment securities (Level 2). Matrix pricing is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities, but rather relying on the investment securities’ relationship to other benchmark quoted investment securities.

(Table Dollar Amounts in Thousands, Except Share Data)

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the FAS 157 fair value hierarchy in which the fair value measurements fall at June 30, 2009:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	$ 102	$ 102	$ -	$ -
Mortgage-backed securities	$ 39,921	$ -	$ 39,921	$ -
U.S. Government agencies	$ 27,337	$ -	$ 27,337	$ -
Corporate bonds	$ 304	$ -	$ 304	$ -
Corporate bond (Trapeza)	$ 93	$ -	$ -	$ 93

	Corporate Bond (Trapeza)
Balance, July 1, 2008	$ -
Total realized and unrealized gains and losses	
Included in other comprehensive income	(656)
Transfers in and/or out of Level 3	749
Balance, June 30, 2009	$ 93

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Impaired Loans

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment in accordance with the provisions of Financial Accounting Standard No. 114 (FAS 114), *Accounting by Creditors for Impairment of a Loan*. Allowable methods for estimating fair value include using the fair value of the collateral for collateral dependent loans or, where a loan is determined not to be collateral dependent, using the discounted cash flow method.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value.

Impaired loans are classified within Level 3 of the fair value hierarchy.

The following table presents the fair value measurement of assets and liabilities measured at fair value on a nonrecurring basis and the level within the FAS 157 fair value hierarchy in which the fair value measurements fall at June 30, 2009:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 845	$ -	$ 845	$ -

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents, Interest-bearing Deposits, Federal Reserve and Federal Home Loan Bank Stock

The carrying amount approximates fair value.

Held-to-Maturity Securities

Fair value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans and Interest Receivable

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations. The carrying amount of accrued interest approximates its fair value.

Deposits

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount approximates fair value. The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

Retained Interest in Securitized Loans

The fair value of the retained interest is estimated using a valuation model that calculates the present value of future cash flows using assumptions related to credit losses and prepayment speeds of the underlying loans.

Advances From Borrowers for Taxes and Insurance and Interest Payable

The carrying value approximates fair value.

Borrowings

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate fair value of existing debt. The market value of a trust preferred issuance by the Company approximated carrying value.

Commitments to Extend Credit, Letters of Credit and Lines of Credit

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

(Table Dollar Amounts in Thousands, Except Share Data)

The following table presents estimated fair values of the Company's financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which method involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

	June 30, 2009		June 30, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 24,700	$ 24,700	$ 24,397	$ 24,397
Interest-bearing deposits	99	99	495	495
Available-for-sale securities	67,655	67,655	77,035	77,035
Trading securities	102	102	-	-
Held-to-maturity securities	23,742	23,246	14,716	14,626
Loans, net of allowance for loan losses	201,673	208,076	226,055	226,820
Loans held for sale	2,579	2,579	419	419
Interest receivable	1,658	1,658	1,869	1,869
FHLB stock	4,565	4,565	4,565	4,565
Retained interest in securitized loans	-	-	1,441	1,441
Financial liabilities				
Deposits	$ 228,748	$ 231,420	$ 244,053	$ 246,090
Borrowings	95,655	102,181	95,655	97,952
Advances from borrowers for taxes and insurance	970	970	1,021	1,021
Interest payable	555	555	1,341	1,341
Unrecognized financial instruments, net of contract amount				
Commitments to extend credit	-	-	-	-
Letters of credit	-	-	-	-
Lines of credit	-	-	-	-

Note 20: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the note regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the note on commitments and credit risk.

The Company invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying financial statements.

Note 21: Commitments and Credit Risk

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

At June 30, 2009 and 2008, the Bank had outstanding commitments to originate loans aggregating approximately $3,931,000 and $2,090,000, respectively. The commitments extended over varying periods of time with the majority being disbursed within a one-year period. Loan commitments at fixed rates of interest amounted to $2,625,000 and $965,000 at June 30, 2009 and 2008, respectively, with the remainder at floating market rates.

Letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

The Bank had total outstanding letters of credit amounting to $1,659,000 and $1,718,000 at June 30, 2009 and 2008, respectively. The letters of credit all expire within one year.

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance sheet instruments.

At June 30, 2009 and 2008, the Bank had granted unused lines of credit to borrowers aggregating approximately $31,940,000 and $24,222,000, respectively.

The Bank entered into agreements with other institutions in conjunction with consumer loan sales that guarantee to the purchaser that the Bank would repurchase any consumer loans that exceed a 30-day or 60-day delinquency status, depending upon the particular agreement or whether the consumer is in bankruptcy. The original amount of the loans sold was $35,536,000 at June 30, 2009 and 2008, respectively, and the remaining amount outstanding totaled $0 and $4,533,000 at June 30, 2009 and 2008, respectively.

Note 22: Related-party Transactions

At June 30, 2009 and 2008, the Bank had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties), in the amount of $3,294,000 and $3,701,000, respectively.

Additionally, the Bank had $285,000 and $397,000 of commitments under credit lines with related parties at June 30, 2009 and 2008, respectively.

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectibility or present other unfavorable features.

Deposits from related parties held by the Bank at June 30, 2009 and 2008, totaled $2.0 million and $1.8 million, respectively.

(Table Dollar Amounts in Thousands, Except Share Data)

Note 23: Stockholders' Equity Matters

On April 25, 2008, the board of directors unanimously approved and the Company executed a 1-for-300 reverse stock split. The reverse stock split was immediately followed by a 300-for-1 forward stock split. The Company then terminated the registration of its common stock by filing Form 15E with the Securities and Exchange Commission. This resulted in the delisting of its shares on the NASDAQ. All share and per share data in the accompanying consolidated financial statements has been adjusted for the above stock splits.

Note 24: Subsequent Events

Subsequent events have been evaluated through October 2, 2009, which is the date the consolidated financial statements were available to be issued.

Note 25: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company:

Condensed Balance Sheets

	2009	2008
Assets		
Cash and cash equivalents	$ 245	$ 1,258
Investment in common stock of subsidiary	31,972	33,576
Loans to First Federal Savings Bank	324	520
Other assets	1,486	1,250
Investment in trust (TRUP)	155	155
Total assets	$ 34,182	$ 36,759
Liabilities		
Other liabilities	$ 78	$ 29
Subordinated debentures	5,155	5,155
	5,233	5,184
Stockholders' Equity	28,949	31,575
Total liabilities and stockholders' equity	$ 34,182	$ 36,759

First Bancorp of Indiana, Inc.
Notes to Consolidated Financial Statements
June 30, 2009 and 2008
(Table Dollar Amounts in Thousands, Except Share Data)

Condensed Statements of Income

	2009	2008
Income		
Dividends from subsidiaries	$ 375	$ -
Other income	56	195
	431	195
Expenses		
Interest expense	356	325
Other expenses	275	226
	631	551
Loss Before Income Tax and Equity in Undistributed Income of Subsidiary	(200)	(356)
Income tax benefit	(228)	(142)
Income (Loss) Before Equity in Undistributed Income of Subsidiary	28	(214)
Equity in Undistributed Income of Subsidiary	1,327	1,018
Net Income	$ 1,355	$ 804

(Table Dollar Amounts in Thousands, Except Share Data)

Condensed Statements of Cash Flows

	2009	2008
Operating Activities		
Net income	$ 1,355	$ 804
Adjustments to reconcile net income to net cash provided by operating activities		
Equity in undistributed income of subsidiary	(1,327)	(1,018)
Net change in		
Other assets	(129)	(341)
Other liabilities	49	(60)
Net cash used in operating activities	(52)	(615)
Investing Activities		
Proceeds from borrowings	-	5,155
Repayments of loans to subsidiary	196	182
Net purchase of equity securities	(31)	(232)
Capital injection from borrowings	-	(1,000)
Net cash provided by investing activities	165	4,105
Financing Activities		
Cash dividends	(1,082)	(1,375)
Purchase of treasury stock	(44)	(796)
Exercise of stock options	-	63
Purchase of fractional shares in connection with reverse split	-	(631)
Net cash used in financing activities	(1,126)	(2,739)
Net Change in Cash and Equivalents	(1,013)	751
Cash and Cash Equivalents, Beginning of Year	1,258	507
Cash and Cash Equivalents, End of Year	$ 245	$ 1,258