FIRST BANCORP OF INDIANA, INC.
AND SUBSIDIARIES
EVANSVILLE, INDIANA

CONSOLIDATED
FINANCIAL STATEMENTS

YEARS ENDED
JUNE 30, 2010 AND 2009

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES

CONTENTS

MONROE SHINE
KNOWLEDGE FOR TODAY . . . VISION FOR TOMORROW
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Independent Auditor's Report

Board of Directors and Stockholders
First Bancorp of Indiana, Inc. and Subsidiaries
Evansville, Indiana

We have audited the accompanying consolidated balance sheet of **First Bancorp of Indiana, Inc. and Subsidiaries** as of June 30, 2010, and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of **First Bancorp of Indiana, Inc. and Subsidiaries** as of June 30, 2009, were audited by other auditors whose report dated October 2, 2009, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2010 consolidated financial statements referred to above present fairly, in all material respects, the financial position of **First Bancorp of Indiana, Inc. and Subsidiaries** as of June 30, 2010, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Monroe Shine

New Albany, Indiana
September 27, 2010

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2010 AND 2009

	2010	2009
ASSETS		
Cash and due from banks	$ 1,499,436	$ 1,404,041
Interest-bearing demand deposits with bank	25,587,187	22,474,975
Money market fund	2,188,578	820,582
Total cash and cash equivalents	29,275,201	24,699,598
Interest-bearing time deposit	99,000	99,000
Trading securities	-	101,706
Securities available for sale, at fair value	107,137,915	67,655,451
Securities held-to-maturity	-	23,742,104
Loans held for sale	1,027,100	2,578,800
Loans, net	169,694,750	201,673,073
Federal Home Loan Bank stock, at cost	4,564,700	4,564,700
Premises and equipment	9,127,748	9,530,009
Foreclosed real estate	3,423,443	3,179,929
Accrued interest receivable	1,413,883	1,595,064
Cash surrender value of life insurance	6,773,926	6,543,176
Goodwill	6,229,152	6,229,152
Core deposit intangible	588,860	683,077
Other assets	4,397,002	5,772,225
Total Assets	$ 343,752,680	$ 358,647,064
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 10,936,544	$ 12,896,445
Interest-bearing	200,708,724	215,851,449
Total deposits	211,645,268	228,747,894
Repurchase agreement	8,000,000	8,000,000
Advances from Federal Home Loan Bank	82,000,000	82,500,000
Other borrowings	5,155,000	5,155,000
Accrued interest payable	373,405	554,853
Advance payments by borrowers for taxes and insurance	598,723	970,401
Accrued expenses and other liabilities	3,152,760	3,769,576
Total Liabilities	310,925,156	329,697,724
STOCKHOLDERS' EQUITY		
Preferred stock of $0.01 par value per share		
Authorized 1,000,000 shares; none issued	-	-
Common stock of $0.01 par value per share		
Authorized 9,000,000 shares; issued 2,526,505 shares	25,265	25,265
Additional paid-in capital	27,727,506	27,591,809
Retained earnings	18,813,986	18,504,073
Accumulated other comprehensive loss	(1,733,856)	(4,861,272)
Unearned ESOP shares	(77,283)	(231,935)
Less treasury stock, at cost - 775,527 shares (784,094 shares in 2009)	(11,928,094)	(12,078,600)
Total Stockholders' Equity	32,827,524	28,949,340
Total Liabilities and Stockholders' Equity	$ 343,752,680	$ 358,647,064

See notes to consolidated financial statements.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
INTEREST INCOME		
Loans, including fees	$ 12,541,676	$ 14,691,052
Investment securities	4,662,168	4,754,915
Federal Home Loan Bank dividends	105,520	139,666
Interest-bearing deposits with banks	49,321	120,614
Other	11,646	19,788
Total interest income	17,370,331	19,726,035
INTEREST EXPENSE		
Deposits	3,416,353	5,559,153
Repurchase agreements	361,756	361,756
Advances from Federal Home Loan Bank	3,600,555	3,604,461
Other borrowings	355,953	355,953
Total interest expense	7,734,617	9,881,323
Net interest income	9,635,714	9,844,712
Provision for loan losses	1,150,000	1,800,000
Net interest income after provision for loan losses	8,485,714	8,044,712
NONINTEREST INCOME		
Service charges on deposit accounts	840,407	834,246
Net realized gain on sale of available for sale securities	42,308	-
Gain (loss) on trading securities	16,024	(99,693)
Other-than-temporary impairment loss on securities	(464,335)	(7,650)
Net gain on sales of mortgage loans	556,898	717,468
Increase in cash surrender value of life insurance	230,750	333,750
ATM transaction and point-of-sale interchange fees	442,245	318,863
Other income	525,633	218,057
Total noninterest income	2,189,930	2,315,041
NONINTEREST EXPENSE		
Compensation and benefits	4,367,901	4,256,585
Occupancy and equipment	1,318,391	1,354,082
Data processing	504,526	501,880
Professional fees	275,495	203,830
Deposit insurance expense	440,568	483,923
Advertising expense	213,349	222,820
Other expenses	2,052,144	1,802,781
Total noninterest expense	9,172,374	8,825,901
Income before income taxes	1,503,270	1,533,852
Income tax expense	112,273	179,025
Net Income	$ 1,390,997	$ 1,354,827

See notes to consolidated financial statements.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED JUNE 30, 2010 AND 2009

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Unearned ESOP Shares	Treasury Stock	Total
Balances at July 1, 2008	$ 25,265	$ 27,390,180	$ 18,230,854	$ (1,650,631)	$ (386,588)	$ (12,034,128)	$ 31,574,952
COMPREHENSIVE LOSS							
Net income	-	-	1,354,827	-			1,354,827
Other comprehensive loss:							
Change in unrealized loss on securities available for sale, net of deferred tax of $1,970,719	-	-	-	(3,215,384)	-	-	(3,215,384)
Less: Reclassification adjustment for impairment losses, net of deferred tax of $2,907	-	-	-	4,743	-	-	4,743
Total comprehensive loss							(1,855,814)
Dividends on common stock, $0.62 per share	-	-	(1,081,608)	-	-	-	(1,081,608)
Shares released by ESOP trust	-	(29,391)	-	-	154,653	-	125,262
Tax benefit of employee benefit plans	-	231,020	-	-	-	-	231,020
Purchase of 5,436 treasury shares	-	-	-	-	-	(44,472)	(44,472)
Balances at June 30, 2009	25,265	27,591,809	18,504,073	(4,861,272)	(231,935)	(12,078,600)	28,949,340
COMPREHENSIVE INCOME							
Net income	-	-	1,390,997	-	-	-	1,390,997
Other comprehensive income:							
Change in unrealized loss on securities available for sale, net of deferred tax of $1,756,433	-	-	-	2,865,759	-	-	2,865,759
Less: Reclassification adjustment for realized gains in earnings, net of deferred tax of $16,077	-	-	-	(26,231)	-	-	(26,231)
Less: Reclassification adjustment for impairment losses, net of deferred tax of $176,447	-	-	-	287,888	-	-	287,888
Total comprehensive income							4,518,413
Dividends on common stock, $0.62 per share	-	-	(1,081,084)	-	-	-	(1,081,084)
Shares released by ESOP trust	-	(17,814)	-	-	154,652	-	136,838
Stock options exercised (11,462 shares)	-	(71,726)	-	-	-	176,317	104,591
Tax benefit of employee benefit plans	-	225,237	-	-	-	-	225,237
Purchase of 2,895 treasury shares	-	-	-	-	-	(25,811)	(25,811)
Balances at June 30, 2010	$ 25,265	$ 27,727,506	$ 18,813,986	$ (1,733,856)	$ (77,283)	$ (11,928,094)	$ 32,827,524

See notes to consolidated financial statements.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,390,997	$ 1,354,827
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premium and accretion of discount on securities, net	(151,614)	(158,789)
Net realized gain on sale of available for sale securities	(42,308)	-
(Gain) loss on trading securities	(16,024)	99,693
Other-than-temporary impairment loss on securities	464,335	7,650
Mortgage loans originated for sale	(17,506,645)	(31,323,625)
Proceeds from sales of mortgage loans	19,615,243	32,041,093
Net gain on sales of mortgage loans	(556,898)	(717,468)
Provision for loan losses	1,150,000	1,800,000
Depreciation and amortization	628,322	614,260
Deferred income tax	(125,000)	(59,000)
ESOP compensation expense	136,838	125,262
Decrease in accrued interest receivable	181,181	211,000
Decrease in accrued interest payable	(181,448)	(786,000)
Increase in cash surrender value of life insurance	(230,750)	(333,750)
(Gain) loss on sale of premises and equipment	(5,567)	4,243
Net realized and unrealized (gain) loss on real estate owned	85,214	(13,246)
Net change in other assets and liabilities	(765,858)	(910,822)
Net Cash Provided By Operating Activities	4,070,018	1,955,328
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in interest bearing time deposits	-	395,525
Purchase of securities available for sale	(56,383,683)	(29,629,729)
Maturities and principal repayments on securities available for sale	44,189,413	33,617,304
Proceeds from sales of securities available for sale	3,425,510	59,986
Purchases of securities held-to-maturity	(3,153,393)	(10,846,038)
Maturities and principal repayments of securities held-to-maturity	913,298	1,802,838
Proceeds from sale of trading securities	117,730	-
Net decrease in loans	29,758,932	20,948,282
Purchase of premises and equipment	(133,672)	(893,633)
Proceeds from sales of premises and equipment	7,395	12,585
Proceeds from sale of foreclosed real estate	902,202	48,246
Capital improvements to foreclosed real estate	(161,539)	(11,418)
Purchase of life insurance policies	-	(675,000)
Net Cash Provided By Investing Activities	19,482,193	14,828,948
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in deposits	(17,102,626)	(15,305,282)
Repayment of advances from Federal Home Loan Bank	(500,000)	-
Net decrease in advance payment by borrowers for taxes and insurance	(371,678)	(50,186)
Options exercised	104,591	-
Dividends paid	(1,081,084)	(1,081,608)
Purchase of treasury shares	(25,811)	(44,472)
Net Cash Used In Financing Activities	(18,976,608)	(16,481,548)
Net Increase in Cash and Cash Equivalents	4,575,603	302,728
Cash and cash equivalents at beginning of year	24,699,598	24,396,870
Cash and Cash Equivalents at End of Year	$ 29,275,201	$ 24,699,598

See notes to consolidated financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

First Bancorp of Indiana, Inc. (the Company) is a savings and loan holding company whose principal activity is the ownership and management of its wholly owned subsidiary, First Federal Savings Bank (the Bank). The Bank operates under a federal savings bank charter and provides a variety of banking services to individuals and business customers through nine locations in Southwestern Indiana. The Bank operates some of its branches under Home Building Savings Bank, a division of the Bank. As a federally chartered savings bank, the Bank is subject to regulation by the Office of Thrift Supervision. The Bank has three wholly owned service corporation subsidiaries, FFSL Service Corporation (FFSL), FFSB Financial Corporation (FFSB), and White River Service Corporation (WRSC). FBEI Investments, Inc. (FBEII), a wholly owned subsidiary, manages an investment securities portfolio. In August 2007, the Company completed the placement of fixed/floating rate subordinated debentures through First Bancorp of Indiana Statutory Trust I (Trust), a trust formed by the Company. The consolidated financial statements reflect the subordinated debt issued by the Company to the Trust because the trust is not included in the consolidation.

Principles of Consolidation and Reclassifications

The consolidated financial statements include the accounts of the Company, Bank, FFSL, FBEII, FFSB Financial and WRSC and have been prepared in accordance with generally accepted accounting principles and conform to general practices within the banking industry. All material intercompany balances and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to current year presentation.

Statement of Cash Flows

For purposes of the statements of cash flows, the Company has defined cash and cash equivalents as cash and amounts due from banks, interest-bearing demand deposits with other banks and federal funds sold.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowance for loan losses and foreclosed real estate, management obtains independent appraisals for significant properties.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

(1 - continued)

Securities

Trading Securities: Securities that are held principally for resale in the near term are classified as trading account securities and recorded at fair value. Realized and unrealized gains and losses on trading account securities are included in noninterest income. Interest and dividends are included in interest income.

Securities Available for Sale: Securities available for sale consist of mortgage-backed and other debt securities and are carried at fair value. The Bank and its subsidiary hold mortgage-backed securities issued by the Government National Mortgage Association (GNMA), a U.S. government agency, and the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC), government-sponsored enterprises, as well as privately-issued collateralized mortgage obligations and other mortgage-backed securities. Collateralized mortgage obligations are complex mortgage-backed securities that restructure the cash flows and risks of the underlying mortgage collateral. The Bank and its subsidiary also hold debt securities issued by FHLMC and FNMA (herein referred to as agency securities), pooled corporate trust preferred obligations (herein referred to as corporate obligations) and municipal bonds. Amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the remaining period to maturity, adjusted for anticipated prepayments. Unrealized gains and losses, net of tax, on securities available for sale are included in other comprehensive income and the accumulated unrealized holding gains and losses are reported as a separate component of equity until realized. Realized gains and losses on the sale of securities available for sale are determined using the specific identification method and are included in other noninterest income and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income.

Securities Held to Maturity: Debt securities for which the Company has the positive intent and ability to hold to maturity are carried at cost, adjusted for amortization of premium and accretion of discount using methods approximating the interest method over the remaining period to maturity, adjusted for anticipated repayments. At June 30, 2009, the Company classified certain mortgage-backed securities and municipal obligations as held to maturity.

Declines in the fair value of individual available for sale and held to maturity securities below their amortized cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than amortized cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans and Allowance for Loan Losses

The Bank grants real estate mortgage, commercial business and consumer loans to customers. Although the Bank has a diversified loan portfolio, the ability of the Bank's customers to honor their contracts is dependent upon the general economic conditions in its lending area.

Loans are stated at unpaid principal balances, less net deferred loan fees and the allowance for loan losses.

(1 - continued)

Loans and Allowance for Loan Losses – continued

Loan origination and commitment fees, as well as certain direct costs of underwriting and closing loans, are deferred and amortized as a yield adjustment to interest income over the lives of the related loans using the interest method. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

The accrual of interest income on a loan is discontinued and previously accrued interest is reversed, when interest or principal payments become ninety (90) days past due unless, in the opinion of management, the outstanding interest remains collectible. Past due status is determined based on contractual terms. Generally, by applying the cash receipts method, interest income is subsequently recognized only as received until the loan is returned to accrual status. The cash receipts method is used when the likelihood of further loss on the loan is remote. Otherwise, the Bank applies the cost recovery method and applies all payments as a reduction of the unpaid principal balance until the loan qualifies for return to accrual status. A loan is restored to accrual status when all principal and interest payments are brought current and the borrower has demonstrated the ability to make future payments of principal and interest as scheduled. The Bank's practice is to charge off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, the depreciation of the underlying collateral, the loan's classification as a loss by regulatory examiners, or for other reasons.

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 uncollectability 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 collectability 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.

The allowance consists of specific and general components. The specific component relates to loans that are classified as doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors.

(1 - continued)

Loans and Allowance for Loan Losses – continued

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 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 homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential mortgage loans for impairment disclosures.

Foreclosed Real Estate

Foreclosed real estate includes both formally foreclosed property and in-substance foreclosed property held for sale. In-substance foreclosed properties are those properties for which the institution has taken physical possession, regardless of whether formal foreclosure proceedings have taken place.

At the time of foreclosure, foreclosed real estate is recorded at the lower of fair value less estimated costs to sell or cost, which becomes the property's new basis. Any write-downs based on the property's fair value at date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and property held for sale is carried at the lower of the new cost basis or fair value less cost to sell. Costs incurred in maintaining foreclosed real estate and subsequent impairment adjustments to the carrying amount of a property, if any, are included in other noninterest expense.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. The Bank uses the straight line method of computing depreciation at rates adequate to amortize the cost of the applicable assets over their estimated useful lives. Maintenance and repairs are expensed as incurred. The cost and related accumulated depreciation of assets sold, or otherwise disposed of, are removed from the related accounts and any gain or loss is included in earnings.

(1 - continued)

Goodwill and Other Intangibles

Goodwill recognized in a business combination represents the excess of the cost of the acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed. Goodwill is carried at its implied fair value and is evaluated for possible impairment at least annually or more frequently upon the occurrence of an event or change in circumstances that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to: (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or (3) an adverse action or assessment by a regulator. If the carrying amount of the goodwill exceeds its implied fair value, an impairment loss is recognized in earnings equal to that excess amount. The loss recognized cannot exceed the carrying amount of goodwill. After a goodwill impairment loss is recognized, the adjusted carrying amount of goodwill is its new accounting basis.

Other intangible assets consist of acquired core deposit intangibles. Core deposit intangibles are amortized over the estimated economic lives of the acquired core deposits. The carrying amount of core deposit intangibles and the remaining estimated economic life are evaluated annually or whenever events or circumstances indicate the carrying amount may not be recoverable or the remaining period of amortization requires revision. After an impairment loss is recognized, the adjusted carrying amount of the intangible asset is its new accounting basis.

Mortgage Banking Activities

Mortgage loans originated and intended for sale are carried at the lower of aggregate cost or market value. Aggregate market value is determined based on the quoted prices under a "best efforts" sales agreement with a third party. Net unrealized losses are recognized through a valuation allowance by charges to income. Realized gains on sales of mortgage loans are included in noninterest income. Mortgage 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 servicing rights is assessed based on the fair value estimated using discounted cash flows based on a current market interest rate. For purposes of measuring impairment, the rights are stratified based on the interest rates of the underlying loans which represents the predominate risk characteristic. The amount of impairment recognized is the amount by which the capitalized servicing rights for a stratum exceeds the fair value.

Commitments to originate mortgage loans held for sale are considered derivative financial instruments to be accounted for at fair value. The Bank's mortgage loan commitments subject to derivative accounting are fixed-rate mortgage loan commitments at market rates when initiated. At June 30, 2010, the Bank had commitments to originate $729,000 of fixed-rate mortgage loans intended for sale in the secondary market after the loans are closed. Fair value is estimated based on fees that would be charged on commitments with similar terms.

Stock-Based Compensation

The Company has adopted the fair value based method of accounting for stock-based compensation prescribed in statement of Financial Accounting Standards (SFAS) 123R, *Share-Based Payment, (*Accounting Standards Codification (ASC) Topic 718) for its stock option plan.

Advertising Costs

Advertising costs are charged to expense when incurred.

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Income Taxes

When income tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while other positions are subject to some degree of uncertainty regarding the merits of the position taken or the amount of the position that would be sustained. The Bank recognizes the benefits of a tax position in the financial statements of the period during which, based on all available evidence, management believes it is more-likely-than-not (more than 50 percent probable) that the tax position would be sustained upon examination. Income tax positions that meet the more-likely-than-not threshold are measured as the largest amount of income tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with the income tax positions claimed on income tax returns that exceeds the amount measured as described above is reflected as a liability for unrecognized income tax benefits in the balance sheet, along with any associated interest and penalties that would be payable to the taxing authorities, if there were an examination. Interest and penalties associated with unrecognized income tax benefits are classified as additional income taxes in the statement of income.

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred income taxes. Income tax reporting and financial statement reporting rules differ in many respects. As a result, there will often be a difference between the carrying amount of an asset or liability as presented in the accompanying balance sheets and the amount that would be recognized as the tax basis of the same asset or liability computed based on the effects of tax positions recognized, as described in the preceding paragraph. These differences are referred to as temporary differences because they are expected to reverse in future years. Deferred income tax assets are recognized for temporary differences where their future reversal will result in future tax benefits. Deferred income tax assets are also recognized for the future tax benefits expected to be realized from net operating loss or tax credit carry forwards. Deferred income tax liabilities are recognized for temporary differences where their future reversal will result in the payment of future income taxes. Deferred income tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

(1 - continued)

Recent Accounting Pronouncements

The following are summaries of recently issued accounting pronouncements that impact the accounting and reporting practices of the Company:

In June 2009, the FASB issued two standards which change the way entities account for securitizations and special-purpose entities: SFAS No. 166, *Accounting for Transfers of Financial Assets* (ASC Topic 860) and SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (ASC Topic 810). SFAS No. 166 is a revision to SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* and requires more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. This statement eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. SFAS No. 167 is a revision to FASB Interpretation No. 46 (Revised December 2003), *Consolidation of Variable Interest Entities,* and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. These new standards require a number of new disclosures. SFAS No. 167 requires a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity will be required to disclose how its involvement with a variable interest entity affects the reporting entity's financial statements. SFAS No. 166 enhances information reported to users of financial statements by providing greater transparency about transfers of financial assets and an entity's continuing involvement in transferred financial assets. These statements will be effective at the beginning of a reporting entity's first fiscal year beginning after November 15, 2009. Early application is not permitted. The adoption of these statements is not expected to have a material effect on the Company's financial position or results of operations.

In June 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-01 (formerly SFAS No. 168), *Topic 105 - The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles.* This statement establishes the *FASB Accounting Standards Codification™* (Codification) as the single source of authoritative U.S. generally accepted accounting principles (U.S. GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. This statement and the Codification are effective for financial statements issued for interim and annual periods ending after September 15, 2009. When effective, the Codification supersedes all existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. Following this statement, the FASB will not issue new standards in the form of statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, the FASB will issue Accounting Standards Updates, which will serve only to: (*a*) update the Codification; (*b*) provide background information about the guidance; and (*c*) provide the bases for conclusions on the change(s) in the Codification. The adoption of this statement did not have a material effect on the Company's financial statements.

(1 - continued)

In August 2009, the FASB issued ASU No. 2009-05, *Fair Value Measurements and Disclosures (Topic 820) – Measuring Liabilities at Fair Value.* This ASU provides amendments for fair value measurements of liabilities. It provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more techniques. ASU 2009-05 also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. ASU 2009-05 is effective for the first reporting period (including interim periods) beginning after issuance or fourth quarter 2009. The adoption of ASU 2009-05 did not have a material effect on the Company's financial position or results of operations.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements*. This ASU provides amendments to ASC Topic 820 to provide users of financial statements with additional information regarding fair value. New disclosures required by the ASU include: (a) disclosure of significant transfers between Level 1 and Level 2 and the reasons for such transfers, (b) disclosure of the reasons for transfers in or out of Level 3 and the reconciliation of the changes in Level 3 fair value measurements should present separately information about purchases, sales, and settlements on a gross basis rather than as a net amount, (c) significant transfers into Level 3 be disclosed separately from significant transfers out of Level 3, (d) disclosure of the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for Level 2 and Level 3 and the reason for any changes in valuation methods. This ASU will generally be effective for interim and annual periods beginning after December 15, 2009. However, disclosures of purchases, sales, issuances, and settlements in the roll forward activity in Level 3 fair value measurements will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this ASU is not expected to have a material effect on the Company's financial position or results of operations.

In April 2010, the FASB issued ASU No. 2010-18, *Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset (Topic 310)*. Under the amendments, modifications of loans that are accounted for within pools under Subtopic 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. However, loans within the scope of Subtopic 310-30 that are accounted for individually will continue to be subject to the troubled debt restructuring accounting provisions. The ASU is effective for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending after July 15, 2010. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In July 2010, the FASB issued ASU No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The guidance requires additional disclosure to facilitate financial statement users' evaluation of the following: (1) the nature of credit risk inherent in the entity's loan portfolio, (2) how that risk is analyzed and assessed in arriving at the allowance for loan losses, and (3) the changes and reasons for those changes in the allowance for loan losses. For public companies, increased disclosures as of the end of a reporting period are effective for periods ending on or after December 15, 2010. Increased disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial position or results of operations.

(Table Dollar Amounts in Thousands, Except Per Share Data)

(2) RESTRICTION ON CASH AND DUE FROM BANKS

The Bank is required to maintain reserve balances on hand and with the Federal Reserve Bank. The amount of those Federal Reserve Bank reserve balances at June 30, 2010 was $2,187,000.

(3) INVESTMENT SECURITIES

Investment securities have been classified in the balance sheet according to management's intent. The investment in debt securities as of June 30, 2010 and 2009 is summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2010:				
Securities available for sale:				
Mortgage-backed securities	$ 32,216	$ 959	$ 1,799	$ 31,376
Agency securities	54,170	345	-	54,515
Corporate obligations	3,887	-	3,570	317
Municipal bonds	20,131	892	93	20,930
Total securities available for sale	$110,404	$2,196	$ 5,462	$107,138
June 30, 2009:				
Securities available for sale:				
Mortgage-backed securities	$ 44,153	$ 602	$ 4,834	$ 39,921
Agency securities	27,456	80	199	27,337
Corporate obligations	3,845	-	3,448	397
Total securities available for sale	$ 75,454	$ 682	$ 8,481	$ 67,655
Securities held to maturity:				
Mortgage-backed securities	$ 1,470	$ 60	$ -	$ 1,530
Municipal bonds	22,272	219	775	21,716
Total securities held to maturity	$ 23,742	$ 279	$ 775	$ 23,246

(Table Dollar Amounts in Thousands, Except Per Share Data)

(3 - continued)

The amortized cost and fair value of debt securities as of June 30, 2010, by contractual maturity, are shown below. Expected maturities of mortgage asset-backed securities may differ from contractual maturities because the residential mortgage loans underlying the obligations may be prepaid without penalty.

	Securities Available for Sale	
	Amortized Cost	**Fair Value**
Due in one year or less	$ 557	$ 572
Due after one year through five years	204	215
Due after five years through ten years	30,727	31,450
Due after ten years	46,700	43,525
	78,188	75,762
Mortgage-backed securities	32,216	31,376
	$ 110,404	$ 107,138

Certain available for sale securities were pledged to secure repurchase agreements and Federal Home Loan Bank advances at June 30, 2010. (See Notes 10 and 11)

During the year ended June 30, 2010, debt securities with an amortized cost of $25,973,000 were transferred from held to maturity to the available for sale classification due to a change in management's intent because of income tax planning considerations. A gross unrealized gain of $582,000 was recognized in accumulated other comprehensive income upon transfer of the securities to the available for sale classification.

During the year ended June 30, 2009, equity securities with a fair value of $102,000 were reclassified from the available for sale to the trading account classification. An unrealized loss of $100,000 was recognized in earnings upon transfer of the securities.

The following table presents the fair values and gross unrealized losses for temporarily impaired available for sale securities as of June 30, 2010 aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position.

	Number of Investment Positions	**Fair Value**	**Gross Unrealized Losses**
Continuous loss position less than twelve months:			
Mortgage-backed securities	7	$ 2,837	$ 33
Municipal bonds	1	133	2
Total less than twelve months	8	$ 2,970	$ 35
Continuous loss position more than twelve months:			
Mortgage-backed securities	27	9,649	1,766
Corporate obligations	5	317	3,570
Municipal bonds	2	1,203	91
Total more than twelve months	34	11,169	5,427
Total available for sale	42	$ 14,139	$ 5,462

(3 - continued)

Management evaluates securities for other-than-temporary impairment at least quarterly, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The unrealized losses on municipal bonds related principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government, its agencies or other governments, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As the Company has the ability to hold the investments until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other-than-temporary.

During the years ended June 30, 2010 and 2009, the Company recognized aggregate other-than-temporary impairment write-down charges to earnings of $450,000 and $8,000, respectively, on corporate obligations relating to pooled trust securities. The credit losses on the securities were calculated by comparing expected discounted cash flows based on performance indicators of underlying assets in the security to the carrying value of the investment. 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 investment before recovery of the adjusted amortized cost basis, management does not consider the remaining investment these securities to be other-than-temporarily impaired at June 30, 2010.

The unrealized loss positions in mortgage-backed securities as of June 30, 2010 relate primarily to privately-issued CMO securities. During the year ended June 30, 2010, the Company recognized an aggregate other-than-temporary impairment write-down charge to earnings of $14,000 on privately-issued CMO securities. The aggregate credit loss was calculated by comparing the expected discounted cash flows for the privately-issued CMO securities in the portfolio to the carrying value of the each security. 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 investment before recovery of the adjusted amortized cost basis, management does not consider the remaining investment these securities to be other-than-temporarily impaired at June 30, 2010.

In the event securities demonstrate additional deterioration through an increase in defaults or loss severity that indicate the Company will not recover its expected cash flows or if the duration of relatively significant unrealized losses in these securities does not reverse, the Company will incur additional other-than-temporary impairments, which may result in material charges to earnings in future periods.

(Table Dollar Amounts in Thousands, Except Per Share Data)

(4) LOANS

Loans at June 30, 2010 and 2009 consisted of the following:

	2010	2009
Mortgage loans:		
One-to-four family	$ 69,714	$ 80,658
Construction	527	3,734
Commercial and multi-family	28,431	27,411
Commercial business loans	18,426	17,919
Consumer loans	46,508	66,863
Consumer lines of credit	7,975	7,058
Loans to depositors secured by savings	176	135
Gross loans	171,757	203,778
Net deferred loan fees and costs	49	229
Undisbursed portion of construction loans	(179)	(600)
Allowance for loan losses	(1,932)	(1,734)
Loans, net	$ 169,695	$ 201,673

An analysis of the allowance for loan losses is as follows:

	2010	2009
Beginning balances	$ 1,734	$ 1,545
Provision for loan losses	1,150	1,800
Recoveries	233	134
Loans charged-off	(1,185)	(1,745)
Ending balances	$ 1,932	$ 1,734

At June 30, 2010 and 2009, the total recorded investment in loans on nonaccrual status amounted to approximately $2,160,000 and $2,001,000, respectively. At June 30, 2010 and 2009, the Bank had loans past due ninety days or more and still accruing interest of approximately $40,000 and $23,000, respectively. Information about impaired loans and the related allowance for loan losses is presented below.

	2010	2009
At end of year:		
Impaired loans with related allowance	$ 230	$ 1,145
Impaired loans with no allowance	1,643	-
Total impaired loans	$ 1,873	$ 1,145
Allowance related to impaired loans	$ 118	$ 300
Average balance of impaired loans during the year	1,815	1,171
Interest income recognized in the statements of income during the periods of impairment	-	27
Interest income received during the periods of impairment – cash receipts method	-	30

(Table Dollar Amounts in Thousands, Except Per Share Data)

(4 - continued)

The Bank has entered into loan transactions with certain directors, officers and their affiliates (related parties). In the opinion of management, such indebtedness was incurred in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with other persons and does not involve more than normal risk of collectability or present other unfavorable features.

The following table represents the aggregate activity for related party loans during the year ended June 30, 2010:

Beginning balance	$ 3,294
New loans and advances	1,946
Payments	(2,249)
Ending balance	$ 2,991

(5) PREMISES AND EQUIPMENT

Premises and equipment as of June 30, 2010 and 2009 are summarized as follows:

	2010	2009
Land	$ 2,108	$ 2,108
Buildings	8,107	8,085
Furniture and equipment	2,303	2,570
	12,518	12,763
Less accumulated depreciation	3,390	3,233
Totals	$ 9,128	$ 9,530

(6) FORECLOSED REAL ESTATE

At June 30, 2010 and 2009, the Company had foreclosed real estate held for sale of $3,423,000 and $3,180,000, respectively. During the years ended June 30, 2010 and 2009, foreclosure losses in the amount of $319,000 and $526,000, respectively, were charged-off to the allowance for loan losses. Losses on subsequent write downs of foreclosed real estate amounted to $55,000 in fiscal year 2010. There were no losses on subsequent writedowns of foreclosed real estate during fiscal year 2009. Net realized gain (loss) from the sale of foreclosed real estate amounted to $(30,000) and $13,000 for the years ended June 30, 2010 and 2009, respectively. Real estate taxes and other expenses of holding foreclosed real estate amounted to $279,000 and $141,000 for the years ended June 30, 2010 and 2009, respectively. These expenses are reported in noninterest expense. Income from foreclosed real estate amounted to $274,000 and $82,000, for the years ended June 30, 2010 and 2009, respectively, and is reported in other noninterest income. At June 30, 2010 and 2009, deferred gains on the sale of foreclosed real estate financed by the Company amounted to $73,000 and $126,000, respectively.

(Table Dollar Amounts in Thousands, Except Per Share Data)

(7) GOODWILL AND CORE DEPOSIT INTANGIBLE

The changes in the carrying amount of goodwill for the years ended June 30, 2010 and 2009 are summarized as follows:

	2010	2009
Balance, beginning of year	$ 6,229	$ 6,229
Changes in goodwill	-	-
Balance, end of year	$ 6,229	$ 6,229

The carrying basis and accumulated amortization of the core deposit intangible at June 30, 2010 and 2009 are summarized as follows:

	2010	2009
Gross carrying amount	$ 1,474	$ 1,474
Accumulated amortization	(885)	(791)
Net balance	$ 589	$ 683

Amortization expense for the years ended June 30, 2010 and 2009 was $94,000. Estimated amortization expense for each of the following five years is as follows:

Year ending June 30:

2011	$ 94
2012	94
2013	94
2014	94
2015	94
2016 and thereafter	119
Total	$ 589

(8) 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 $72,915,000 and $64,277,000 at June 30, 2010 and 2009, respectively. Contractually specified servicing fees, late fees and "ancillary fees" of approximately $173,000 and $116,000 are included in loan servicing fees in the consolidated statements of income at June 30, 2010 and 2009, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing and included in demand deposits, were approximately $383,000 and $679,000 at June 30, 2010 and 2009, respectively.

(Table Dollar Amounts in Thousands, Except Per Share Data)

(8 - continued)

The aggregate fair value of capitalized mortgage-servicing rights at June 30, 2010 and 2009, 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. An analysis of mortgage servicing rights for the years ended June 30, 2010 and 2009 is as follows:

	2010	2009
Mortgage servicing rights		
Balance, beginning of year	$ 613	$ 473
Servicing rights capitalized	254	322
Amortization of servicing rights	(170)	(182)
Balance, end of year	$ 697	$ 613

Prior to 2009, consumer loans were also serviced for others but were not included in the accompanying consolidated balance sheets. There were no outstanding consumer loans serviced for others outstanding at June 30, 2010 or 2009. An analysis of consumer servicing rights for the year ended June 30, 2009 is as follows:

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

(9) DEPOSITS

The aggregate amount of time deposit accounts of $100,000 or more amounted to approximately $61,813,000 and $74,831,000 at June 30, 2010 and 2009, respectively.

At June 30, 2010, scheduled maturities of time deposits were as follows:

Year ending June 30:	
2011	$ 56,680
2012	13,087
2013	3,933
2014	968
2015	1,158
2016 and thereafter	575
Total	$ 76,401

The Bank held deposits of approximately $1.8 million and $2.0 million for related parties at June 30, 2010 and 2009, respectively.

(10) REPURCHASE AGREEMENT

At June 30, 2010 and 2009, the Company had a structured repurchase agreement for $8,000,000 with an interest rate of 4.46% and a maturity date of July 17, 2017. The maximum amount outstanding at any given month end during 2010 and 2009 was $8,000,000 and the monthly average of such agreements totaled $8,000,000 during 2010 and 2009. The repurchase agreement is secured by U.S. agency securities and the collateral is held by a third-party safekeeping agent. As of June 30, 2010, debt securities underlying the agreement had a fair value of $10,170,000.

(11) ADVANCES FROM FEDERAL HOME LOAN BANK

At June 30, 2010 and 2009, advances from the Federal Home Loan Bank (FHLB) were as follows:

	2010		2009	
(Dollars in thousands)	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**	**Amount**
Fixed rate putable advances	4.31%	$ 82,000	4.31%	$ 82,500

The following is a schedule of maturities for advances outstanding as of June 30, 2010:

(In thousands)	
Due in:	
2011	$ 12,000
2012	10,000
2013	-
2014	-
2015 and thereafter	60,000
Total	$ 82,000

The advances are secured under a blanket collateral agreement. At June 30, 2010, the carrying value of qualifying residential mortgage loans and investment securities pledged as security for the advances was $58,137,000 and $61,762,000, respectively.

The Company also has a $2,000,000 line of credit with the FHLB. There were no borrowings under this line of credit at June 30, 2010 and 2009. The line of credit matures in October 2010.

(12) OTHER BORROWINGS

Other borrowings outstanding as of June 30, 2010 and 2009 totaled $5,155,000 and consisted of junior subordinated debentures that 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 (LIBOR) for the remaining term. Interest is payable on a quarterly basis.

(Table Dollar Amounts in Thousands, Except Per Share Data)

(13) INCOME TAXES

The components of income tax expense were as follows:

	2010	2009
Current	$ 237	$ 238
Deferred	(125)	(59)
Totals	$ 112	$ 179

The reconciliation of income tax expense with the amount that would have been provided at the federal statutory rate of 34 percent follows:

	2010	2009
Provision at federal statutory rate	$ 511	$ 522
State income tax-net of federal tax benefit	11	(34)
Cash surrender value of life insurance	(78)	(113)
Tax exempt interest	(285)	(211)
Other	(47)	15
Total income tax expense	$ 112	$ 179

Significant components of the Bank's net deferred tax asset as of June 30, 2010 and 2009 were as follows:

	2010	2009
Deferred tax assets (liabilities):		
Allowance for loan losses	$ 720	$ 643
Deferred compensation and directors' fees	188	346
Unrealized loss on available for sale securities	1,063	2,937
Accrued vacation	70	64
Acquisition adjustments	31	37
State net operating loss carryforward	41	40
Other-than-temporary impairment loss on securities available for sale	173	-
Alternative minimum tax credit carryover	207	213
ESOP	187	129
Depreciation	(256)	(238)
Federal Home Loan Bank stock dividends	(159)	(150)
Mortgage servicing rights	(260)	(227)
Core deposit intangible	(148)	(169)
Goodwill	(406)	(356)
Prepaid assets	(118)	(97)
Other	121	31
Net deferred tax asset	$ 1,454	$ 3,203

The Company has a Indiana net operating loss carryover of $484,000 available to reduce Indiana taxable income in subsequent years. The net operating loss carryover expires for the year ending June 30, 2024.

(13 - continued)

At June 30, 2010 and 2009, the Company had no liability for unrecognized income tax benefits and does not anticipate any increase in the liability for unrecognized tax benefits during the next twelve months. The Company believes that its income tax positions would be sustained upon examination and does not anticipate any adjustments that would result in a material change to its financial position or results of operations. The Company files consolidated U.S. federal income tax returns and Indiana state income tax returns on a consolidated basis with its subsidiaries. Returns filed in these jurisdictions for tax years ended on or after June 30, 2007 are subject to examination by the relevant taxing authorities.

Retained earnings at June 30, 2010 and 2009 include approximately $4.1 million of cumulative deductions for which no deferred federal income tax liability has been recorded. This amount represents an allocation of income to bad debt deductions for tax purposes only. Reduction of these reserves for purposes other than tax bad debt losses or adjustments arising from carryback of net operating losses would create income for tax purposes subject to the then current corporate income tax rate. The unrecorded deferred liability on these amounts was approximately $1.4 million at June 30, 2010 and 2009.

(14) EMPLOYEE BENEFIT PLANS

Defined Contribution Plan

The Bank has a qualified defined contribution plan available to all eligible employees. The plan allows participating employees to make tax-deferred or after-tax ROTH contributions under Internal Revenue Code Section 401(k). The Bank made no matching contributions for the years ended June 30, 2010 and 2009.

Supplemental Retirement Plans

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 $174,000 and $160,000 for the years ended June 30, 2010 and 2009, respectively. The Bank also has 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 $41,000 and $48,000 for the years ended June 30, 2010 and 2009, respectively.

(Table Dollar Amounts in Thousands, Except Per Share Data)

(14 - continued)

Employee Stock Ownership Plan

In 1999, the Bank established an employee stock ownership plan (ESOP) 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 services less dividends received by the ESOP. All dividends received by the ESOP are used for 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 the ESOP in accordance with ASC 718-40, *Employee Stock Ownership Plans*. 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.

Stock totaling 15,150 shares for each of the years ended June 30, 2010 and 2009, with an average fair value of $9.03 and $8.27, respectively, per share, were released or committed to be released, resulting in ESOP compensation expense of $137,000 and $125,000, respectively. Shares held by the ESOP at June 30, 2010 and 2009 were as follows:

	2010	2009
Allocated shares	130,118	116,289
Shares committed to be released	811	1,692
Unallocated shares	15,117	30,273
Total ESOP shares	146,046	148,254
Fair value of unallocated shares at June 30	$ 155,000	$ 233,000

(15) STOCK-BASED COMPENSATION PLANS

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 a 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, 2010 and 2009.

(Table Dollar Amounts in Thousands, Except Per Share Data)

(15 - continued)

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 2010 and 2009, 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.

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, 2010.

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	82,711	$ 13.35		
Granted	-	-		
Exercised	11,462	9.13		
Forfeited or expired	24,163	9.13		
Outstanding at end of year	47,086	$ 16.54	2.9	$ -
Exercisable at end of year	47,086	$ 16.54	2.9	$ -

The total intrinsic value of options exercised during the year ended June 30, 2010, was $13,000. There were no options exercised during the year ended June 30, 2009.

(16) COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, there are outstanding various commitments and contingent liabilities, such as commitments to extend credit and outstanding standby letters of credit which are not reflected in the financial statements.

Commitments under outstanding standby letters of credit totaled $1,128,000 and $1,659,000 at June 30, 2010 and 2009, respectively.

The following is a summary of commitments to extend credit at June 30, 2010 and 2009:

	2010	2009
Loan commitments:		
Fixed rate	$ 2,652	$ 2,625
Adjustable rate	10	1,306
Residential and commercial loans in process	181	3
Undisbursed commercial and personal lines of credit	17,807	31,940
Total commitments to extend credit	$ 20,650	$ 35,874

(17) FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments (see Note 16). The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

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 many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount and type of collateral obtained, if deemed necessary by the Bank upon extension of credit, varies and is based on management's credit evaluation of the counterparty.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

The Bank has not been required to perform on any financial guarantees and has incurred no losses on its commitments in 2010 or 2009.

(18) DIVIDEND RESTRICTIONS

As an Indiana corporation, the Company is subject to Indiana law with respect to the payment of dividends. Under Indiana law, the Company may pay dividends so long as it is able to pay its debts as they become due in the usual course of business and its assets exceed the sum of its total liabilities, plus the amount that would be needed, if the Company were to be dissolved at the time of the dividend, to satisfy any rights that are preferential to the rights of the persons receiving the dividend. The ability of the Company to pay dividends depends primarily on the ability of the Bank to pay dividends to the Company.

The payment of dividends by the Bank is subject to regulation by the Office of Thrift Supervision (OTS). The Bank may not declare or pay a cash dividend or repurchase any of its capital stock if the effect thereof would cause the regulatory capital of the Bank to be reduced below regulatory capital requirements imposed by the OTS or below the amount of the liquidation account established upon completion of the conversion.

(19) REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the OTS. 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.

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 tangible capital to adjusted total assets (as defined), Tier I (core) capital (as defined) to adjusted total assets, Tier I capital to risk-weighted assets (as defined), and of total risk-based capital (as defined) to risk-weighted assets. Management believes, as of June 30, 2010, that the Bank meets all capital adequacy requirements to which it is subject.

As of June 30, 2010, the most recent notification from the OTS 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 below. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios are also presented in the table. No amount was deducted from capital for interest-rate risk in either period.

	Actual		**Minimum For Capital Adequacy Purposes:**		**Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions:**	
(Dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of June 30, 2010:						
Total capital (to risk weighted assets)	$ 32,934	14.25%	$ 18,495	8.00%	$ 23,118	10.00%
Tier I capital (to risk weighted assets)	$ 31,183	13.49%	$ 9,247	4.00%	$ 13,871	6.00%
Tier I capital (to adjusted total assets)	$ 31,183	9.22%	$ 13,527	4.00%	$ 16,909	5.00%
Tangible capital (to adjusted total assets)	$ 31,183	9.22%	$ 5,073	1.50%	N/A	
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%
Tier I capital (to adjusted total assets)	$ 29,860	8.40%	$ 14,213	4.00%	$ 17,766	5.00%
Tangible capital (to adjusted total assets)	$ 29,860	8.40%	$ 5,330	1.50%	N/A	

(20) SUPPLEMENTAL DISCLOSURES FOR STATEMENTS OF CASH FLOWS

	2010	2009
Cash payments for:		
Interest	$ 7,916	$ 10,668
Income taxes (net of refunds received)	(70)	277
Noncash investing activities:		
Transfer of loans to foreclosed real estate	1,388	4,024
Loans to facilitate the sale of foreclosed real estate	-	314
Transfer of securities from held to maturity to available for sale	25,973	-

(21) DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Generally accepted accounting principles (GAAP) requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. GAAP excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. The carrying value and estimated fair value of financial instruments at June 30, 2010 and 2009 are as follows:

	2010		2009	
(*In thousands*)	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	$ 29,275	$ 29,275	$ 24,700	$ 24,700
Interest bearing deposit with bank	99	99	99	99
Trading securities	-	-	102	102
Securities available for sale	107,138	107,138	67,655	67,655
Securities held to maturity	-	-	23,742	23,246
Loans held for sale	1,027	1,027	2,579	2,579
Loans	171,627	179,540	203,407	209,810
Less: allowance for loan losses	(1,932)	(1,932)	(1,734)	(1,734)
	169,695	177,608	201,673	208,076
Federal Home Loan Bank stock	4,565	4,565	4,565	4,565
Accrued interest receivable	1,414	1,414	1,595	1,595
Financial liabilities:				
Deposits	211,645	213,481	228,748	231,420
Borrowed funds	95,155	103,861	95,655	102,181
Accrued interest payable	373	373	555	555
Advance payments by borrowers for taxes and insurance	599	599	970	970
Off-balance-sheet financial instruments:				
Asset related to commitments to extent credit	-	181	-	-

(21 - continued)

The carrying amounts in the preceding table are included in the balance sheets under the applicable captions. The contractual or notional amounts of financial instruments with off-balance-sheet risk are disclosed in Note 16.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Cash and Cash Equivalents

For cash and cash equivalents, including cash and due from banks, interest-bearing deposits with banks, and money market funds, the carrying amount is a reasonable estimate of fair value.

Investment Securities

For investment securities, the Company obtains fair value measurements from an independent pricing service and the fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, U.S. government and agency yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security's terms and conditions, among other factors.

The fair values of privately issued CMO and corporate securities are calculated based on the expected future cash flows using known attributes of each security including, but not limited to, the current credit enhancement level and rules-based payment priority (discussed further in Note 22).

For Federal Home Loan Bank stock, a restricted equity security held for investment, the carrying amount is a reasonable estimate of fair value because the stock is not marketable.

Loans

The fair value of loans is estimated by discounting future cash flows using current lending rates for new loans with similar remaining maturities. The resulting value is reduced by an estimate of losses inherent in the portfolio. The carrying amount of accrued interest receivable approximates its fair value.

Deposits

The fair value of demand deposits, savings accounts, money market deposit accounts and other transaction accounts is the amount payable on demand at the balance sheet date. The fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

Borrowed Funds

The fair value of long-term repurchase agreements and fixed rate term FHLB advances is estimated by discounting the future cash flows using the current rates at which similar loans with the same remaining maturities could be obtained. The carrying amount of the junior subordinated debentures approximates its fair value.

Off-Balance-Sheet Financial Instruments

Commitments to extend credit were evaluated and fair value was 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, the fair value estimate considers the difference between current interest rates and the committed rates.

(Table Dollar Amounts in Thousands, Except Per Share Data)

(22) FAIR VALUE MEASUREMENTS

Effective July 1, 2008, the Company adopted the provisions of ASC Topic 820 (formerly SFAS No. 157), *Fair Value Measurements,* for financial assets and financial liabilities. This statement is definitional and disclosure oriented and addresses how companies should approach measuring fair value when required by GAAP; it does not create or modify any current GAAP requirements to apply fair value accounting. ASC Topic 820 prescribes various disclosures about financial statement categories and amounts which are measured at fair value, if such disclosures are not already specified elsewhere in GAAP. The adoption of the standard did not have a material effect on the Company's consolidated financial statements.

Fair value is defined 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. The standard establishes a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted market price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

Level 2: Inputs to the valuation methodology include quoted market prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted market prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that are derived principally from or can be corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company’s financial assets carried at fair value or the lower of cost or fair value. The table below presents the balances of assets measured at fair value on a recurring basis and assets measured at fair value on a nonrecurring basis as of June 30, 2010. The Company had no liabilities measured at fair value as of June 30, 2010.

	Carrying Value			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets Measured on a Recurring Basis				
Securities available for sale	$ -	$ 107,074	$ 64	$ 107,138
Assets Measured on a Nonrecurring Basis				
Loans held for sale	-	1,027	-	1,027
Impaired loans	-	1,755	-	1,755
Foreclosed real estate	-	3,423	-	3,423

(22 - continued)

In general, fair value is based upon quoted market prices, where available. If quoted market prices are not available, fair value is based on internally developed models or obtained from third parties that primarily use, as inputs, observable market-based parameters or a matrix pricing model that employs the Bond Market Association's standard calculations for cash flow and price/yield analysis and observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value, or the lower of cost or fair value. These adjustments may include unobservable parameters. Any such valuation adjustments have been applied consistently over time. The Bank's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Bank's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available for Sale. Securities classified as available for sale are reported at fair value on a recurring basis. These securities are classified as Level 1 of the valuation hierarchy where quoted market prices from reputable third-party brokers are available in an active market. If quoted market prices are not available, the Bank obtains fair value measurements from an independent pricing service. These securities are reported using Level 2 inputs and the fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, U.S. government and agency yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security's terms and conditions, among other factors. Changes in fair value of securities available for sale are recorded in other comprehensive income.

Loans Held for Sale. Loans held for sale are carried at the lower of cost or market value. The portfolio comprised of residential real estate loans and fair value is based on specific prices of underlying contracts for sales to investors. These measurements are carried at Level 2.

Impaired Loans. Impaired loans are carried at the present value of estimated future cash flows using the loan's existing rate or the fair value of collateral if the loan is collateral dependent. Impaired loans are evaluated and valued at the time the loan is identified as impaired at the lower of cost or market value. For collateral dependent impaired loans, market value is measured based on the value of the collateral securing these loans and is classified as Level 2 in the fair value hierarchy. Collateral may be real estate and/or business assets, including equipment, inventory and/or accounts receivable, and its fair value is generally determined based on real estate appraisals or other independent evaluations by qualified professionals. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above. In cases where such inputs are unobservable, the loan balance is reflected within the Level 3 hierarchy.

Foreclosed Real Estate Held for Sale. Foreclosed real estate held for sale is reported at the lower of cost or fair value less estimated costs to dispose of the property using Level 2 inputs. The fair values are determined by real estate appraisals using valuation techniques consistent with the market approach using recent sales of comparable properties. In cases where such inputs are unobservable, the balance is reflected within the Level 3 hierarchy.

(22 - continued)

The following table presents a reconciliation of available for sale securities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2010:

(In thousands)

Balance at July 1, 2009	$ 93
Total gains or (losses) (both realized/unrealized):	
Recognized in earnings (noninterest income)	-
Recognized in other comprehensive income	(36)
Purchases, sales, issuances and settlements, net	7
Transfers into Level 3	-
Balance at June 30, 2010	$ 64

(23) SUBSEQUENT EVENTS

The Company has evaluated whether any subsequent events that require recognition or disclosure in the accompanying financial statements and related notes thereto have taken place through September 27, 2010, the date these financial statements were available to be issued. The Company has determined that there are no such subsequent events.