

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

**CONSOLIDATED
FINANCIAL STATEMENTS**

**YEARS ENDED
JUNE 30, 2014 AND 2013**

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES

CONTENTS

	Page
Independent Auditor's Report	3
CONSOLIDATED BALANCE SHEETS	4
CONSOLIDATED STATEMENTS OF INCOME	5
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	6
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY	7
CONSOLIDATED STATEMENTS OF CASH FLOWS	8
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	9-49



222 EAST MARKET STREET, P.O. BOX 1407, NEW ALBANY, INDIANA 47150 • PHONE: 812.945.2311 • FAX: 812.945.2603

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of **First Bancorp of Indiana, Inc. and Subsidiaries**, which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 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, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Monroe Shine

New Albany, Indiana
September 23, 2014

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and due from banks	\$ 1,984,292	\$ 2,299,250
Interest-bearing demand deposits with banks	18,790,947	34,089,869
Money market fund	288,006	465,367
Total cash and cash equivalents	<u>21,063,245</u>	<u>36,854,486</u>
Interest-bearing time deposits	1,724,000	744,000
Securities available for sale, at fair value	81,441,416	87,375,840
Loans held for sale	-	2,114,700
Loans, net	234,353,490	211,878,936
Federal Home Loan Bank stock, at cost	4,305,200	4,305,200
Premises and equipment	12,763,009	12,403,588
Foreclosed real estate	2,066,375	2,278,372
Accrued interest receivable	1,308,829	1,215,750
Cash surrender value of life insurance	7,565,213	7,329,028
Goodwill	6,229,152	6,229,152
Core deposit intangible	211,989	306,207
Other assets	2,396,558	3,904,256
	<u>375,428,476</u>	<u>376,939,515</u>
Total Assets	<u>\$ 375,428,476</u>	<u>\$ 376,939,515</u>
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 24,084,333	\$ 42,924,266
Interest-bearing	236,895,521	222,023,236
Total deposits	<u>260,979,854</u>	<u>264,947,502</u>
Repurchase agreement	8,000,000	8,000,000
Advances from Federal Home Loan Bank	60,000,000	60,000,000
Other borrowings	5,155,000	5,155,000
Accrued interest payable	198,072	188,353
Advance payments by borrowers for taxes and insurance	1,149,705	931,561
Accrued expenses and other liabilities	3,320,050	3,262,611
Total Liabilities	<u>338,802,681</u>	<u>342,485,027</u>
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, outstanding 1,749,165 shares	25,265	25,265
Additional paid-in capital	27,772,593	27,772,593
Retained earnings	19,509,522	19,174,610
Accumulated other comprehensive income (loss)	1,266,018	(570,377)
Less treasury stock, at cost - 777,340 shares	(11,947,603)	(11,947,603)
Total Stockholders' Equity	<u>36,625,795</u>	<u>34,454,488</u>
	<u>\$ 375,428,476</u>	<u>\$ 376,939,515</u>
Total Liabilities and Stockholders' Equity	<u>\$ 375,428,476</u>	<u>\$ 376,939,515</u>

See notes to consolidated financial statements.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
INTEREST INCOME		
Loans, including fees	\$ 10,462,076	\$ 10,302,215
Investment securities:		
Taxable	1,602,159	1,599,752
Tax-exempt	929,396	944,431
Federal Home Loan Bank dividends	180,039	145,020
Interest-bearing deposits with banks	69,062	90,568
Reverse repurchase agreements	-	8,374
Other	2,637	4,766
Total interest income	<u>13,245,369</u>	<u>13,095,126</u>
INTEREST EXPENSE		
Deposits	700,596	873,879
Repurchase agreements	361,756	361,756
Advances from Federal Home Loan Bank	2,202,338	2,337,705
Other borrowings	87,048	145,368
Total interest expense	<u>3,351,738</u>	<u>3,718,708</u>
Net interest income	9,893,631	9,376,418
Provision for loan losses	240,000	380,000
Net interest income after provision for loan losses	<u>9,653,631</u>	<u>8,996,418</u>
NONINTEREST INCOME		
Service charges on deposit accounts	1,065,943	1,017,394
Net realized gain on sales of available for sale securities	57,795	1,146
Other-than-temporary impairment loss on securities	(42,384)	(50,861)
Net gain on sales of mortgage loans	540,311	1,367,091
Increase in cash surrender value of life insurance	236,185	242,000
ATM transaction and point-of-sale interchange fees	813,707	744,522
Other income	610,490	463,541
Total noninterest income	<u>3,282,047</u>	<u>3,784,833</u>
NONINTEREST EXPENSE		
Compensation and benefits	5,944,154	5,842,989
Occupancy and equipment	1,748,513	1,609,605
Data processing	723,605	649,334
Professional fees	155,046	322,015
Deposit insurance expense	315,113	318,483
Advertising expense	347,613	278,061
Other expenses	2,154,023	2,130,073
Total noninterest expense	<u>11,388,067</u>	<u>11,150,560</u>
Income before income taxes	1,547,611	1,630,691
Income tax expense	128,215	25,780
Net Income	<u>\$ 1,419,396</u>	<u>\$ 1,604,911</u>

See notes to consolidated financial statements.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Net Income	\$ 1,419,396	\$ 1,604,911
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX		
Change in unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period	2,977,339	(1,411,076)
Income tax benefit (expense)	<u>(1,131,389)</u>	<u>536,209</u>
Net of tax amount	<u>1,845,950</u>	<u>(874,867)</u>
Less: reclassification adjustment for realized gains included in net income during the period	(57,795)	(1,146)
Income tax expense	<u>21,962</u>	<u>435</u>
Net of tax amount	<u>(35,833)</u>	<u>(711)</u>
Less: reclassification adjustment for other-than-temporary impairment losses included in net income during the period	42,384	50,861
Income tax benefit	<u>(16,106)</u>	<u>(19,327)</u>
Net of tax amount	<u>26,278</u>	<u>31,534</u>
Other Comprehensive Income (Loss)	<u>1,836,395</u>	<u>(844,044)</u>
Total Comprehensive Income	<u>\$ 3,255,791</u>	<u>\$ 760,867</u>

See notes to consolidated financial statements.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED JUNE 30, 2014 AND 2013

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balances at July 1, 2012	\$25,265	\$27,772,593	\$18,654,182	\$ 273,667	\$(11,947,603)	\$34,778,104
Net income	-	-	1,604,911	-	-	1,604,911
Other comprehensive loss	-	-	-	(844,044)	-	(844,044)
Dividends on common stock, (\$0.62 per share)	-	-	(1,084,483)	-	-	(1,084,483)
Balances at June 30, 2013	25,265	27,772,593	19,174,610	(570,377)	(11,947,603)	34,454,488
Net income	-	-	1,419,396	-	-	1,419,396
Other comprehensive income	-	-	-	1,836,395	-	1,836,395
Dividends on common stock, (\$0.62 per share)	-	-	(1,084,484)	-	-	(1,084,484)
Balances at June 30, 2014	<u>\$25,265</u>	<u>\$27,772,593</u>	<u>\$19,509,522</u>	<u>\$ 1,266,018</u>	<u>\$(11,947,603)</u>	<u>\$36,625,795</u>

See notes to consolidated financial statements.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,419,396	\$ 1,604,911
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premium and accretion of discount on securities, net	274,249	314,949
Net realized gain on sales of available for sale securities	(57,795)	(1,146)
Other-than-temporary impairment loss on securities	42,384	50,861
Mortgage loans originated for sale	(14,466,438)	(44,072,763)
Proceeds from sales of mortgage loans	17,121,449	44,728,004
Net gain on sales of mortgage loans	(540,311)	(1,367,091)
Provision for loan losses	240,000	380,000
Depreciation and amortization	825,107	777,701
Deferred income tax	(54,000)	(111,000)
Gain on life insurance	-	(41,251)
(Increase) decrease in accrued interest receivable	(93,079)	136,252
Increase (decrease) in accrued interest payable	9,719	(29,633)
Increase in cash surrender value of life insurance	(236,185)	(242,000)
Gain on sale of premises and equipment	(100)	(4,400)
Net realized and unrealized loss on foreclosed real estate	27,430	12,141
Net change in other assets and liabilities	507,756	2,768,482
Net Cash Provided By Operating Activities	<u>5,019,582</u>	<u>4,904,017</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in interest-bearing time deposits	(980,000)	(494,170)
Purchase of securities available for sale	(17,472,081)	(26,968,464)
Maturities and principal repayments on securities available for sale	13,481,264	49,441,283
Proceeds from sales of securities available for sale	12,614,179	4,188,274
Net increase in loans	(22,714,555)	(31,203,105)
Purchase of premises and equipment	(1,090,310)	(3,994,640)
Proceeds from sale of premises and equipment	100	4,400
Proceeds from life insurance	-	240,649
Proceeds from sale of foreclosed real estate	189,418	207,850
Capital improvements to foreclosed real estate	(4,850)	(63,843)
Net Cash Used In Investing Activities	<u>(15,976,835)</u>	<u>(8,641,766)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in deposits	(3,967,648)	(4,249,658)
Net increase in advance payments by borrowers for taxes and insurance	218,144	116,871
Dividends paid	(1,084,484)	(1,084,483)
Net Cash Used In Financing Activities	<u>(4,833,988)</u>	<u>(5,217,270)</u>
Net Decrease in Cash and Cash Equivalents	(15,791,241)	(8,955,019)
Cash and cash equivalents at beginning of year	<u>36,854,486</u>	<u>45,809,505</u>
Cash and Cash Equivalents at End of Year	<u>\$ 21,063,245</u>	<u>\$ 36,854,486</u>

See notes to consolidated financial statements.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Operations

First Bancorp of Indiana, Inc. (the Company) is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiary, First Federal Savings Bank (the Bank). The Bank operates as an Indiana commercial bank following its conversion from a federal savings bank charter in October 2011. As a result of the bank conversion, the Company also converted from a savings and loan holding company to a bank holding company.

The Bank 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 state chartered commercial bank, the Bank is subject to regulation by the Indiana Department of Financial Institutions and the Federal Deposit Insurance Corporation (FDIC). The Bank has three wholly owned service corporation subsidiaries, FFSL Service Corporation (FFSL), Elucidate Financial Solutions, Inc. (Elucidate), and White River Service Corporation (WRSC). FBFI Investments, Inc. (FBFI), 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, FBFI, Elucidate 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 on hand, amounts due from banks (including cash items in process of clearing), interest-bearing deposits with other banks having an original maturity of 90 days or less, reverse repurchase agreements and money market funds.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 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.

A majority of the Bank's loan portfolio consists of single-family residential and commercial real estate loans in the Bank's market area. Accordingly, the ultimate collectability of a substantial portion of the Bank's loan portfolio and the recovery of the carrying amount of foreclosed real estate are susceptible to changes in local market conditions.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(1 - continued)

Use of Estimates – continued

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.

Securities Lending and Financing Arrangements

Securities purchased under agreements to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements) are treated as collateralized lending and borrowing transactions, respectively, and are carried at the amounts at which the securities were initially acquired or sold.

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 (collectively referred to as agency mortgage-backed securities), as well as privately-issued collateralized mortgage obligations (CMOs) and other asset-backed securities. CMOs are complex mortgage-backed securities that restructure the cash flows and risks of the underlying mortgage collateral. Asset-backed securities include securities backed by government-sponsored student loan programs and mortgage-backed securities issued by the Small Business Administration (SBA). The Bank and its subsidiary also hold debt securities issued by FNMA, FHLMC and Federal Home Loan Bank (FHLB) (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.

Declines in the fair value of individual available for sale 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.

Investments in non-marketable equity securities such as FHLB stock are carried at cost. Impairment testing on these investments is based on applicable accounting guidance and the cost basis is reduced when impairment is deemed to be other-than-temporary.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(1 - continued)

Loans and Allowance for Loan Losses

Loans Held for Investment

Loans are stated at unpaid principal balances, less net deferred loan fees and the allowance for loan losses. The Bank grants real estate mortgage, commercial business and consumer loans. A substantial portion of the loan portfolio is represented by mortgage loans to customers in southern Indiana. The ability of the Bank's customers to honor their contracts is dependent upon the real estate and general economic conditions in this area.

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 net deferred loan fees is discontinued when a loan is placed on nonaccrual status.

Nonaccrual Loans

The recognition of income on a loan is discontinued and previously accrued interest is reversed, when interest or principal payments become 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. Interest income on impaired loans is recognized using the cost recovery method, unless the likelihood of further loss on the loan is remote.

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, which generally requires that the borrower demonstrate a period of performance of at least six consecutive months.

Impaired Loans

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.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(1 - continued)

Loans and Allowance for Loan Losses - continued

Values for collateral dependent loans are generally based on appraisals obtained from independent licensed real estate appraisers, with adjustments applied for estimated costs to sell the property, costs to complete unfinished or repair damaged property and other known defects. New appraisals are generally obtained for all significant properties (if the value is estimated to exceed \$250,000) when a loan is identified as impaired. Also, subsequent appraisals are obtained or an internal evaluation is prepared if management believes there has been a significant change in the market value of a collateral property securing an impaired loan. In instances where it is not deemed necessary to obtain a new appraisal, management bases its impairment evaluation on the original appraisal with adjustments for current conditions based on management's assessment of market factors and inspection of the property.

Troubled Debt Restructurings

The modification of a loan is considered to be a troubled debt restructuring (TDR) if the debtor is experiencing financial difficulties and the Bank grants a concession to the debtor that it would not otherwise consider. By granting the concession, the Bank expects to obtain more cash or other value from the debtor, or to increase the probability of receipt, than would be expected by not granting the concession. The concession may include, but is not limited to, reduction of the stated interest rate of the loan, reduction of accrued interest, extension of the maturity date or reduction of the face amount of the debt. A concession will be granted when, as a result of the restructuring, the Bank does not expect to collect all amounts due, including interest at the original stated rate. A concession may also be granted if the debtor is not able to access funds elsewhere at a market rate for debt with similar risk characteristics as the restructured debt. The Bank's determination of whether a loan modification is a TDR considers the individual facts and circumstances surrounding each modification.

A TDR can involve loans remaining on nonaccrual, moving to nonaccrual, or continuing on accrual status, depending on the individual facts and circumstances of the restructuring. Generally, a nonaccrual loan that is modified in a TDR remains on nonaccrual status for a period of at least six months following the modification to ensure that the borrower performs in accordance with the modified terms, including consistent and timely payments of at least six months according to the restructured terms.

Allowance for Loan Losses

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the loan portfolio at the balance sheet date. Additions to the allowance for loan losses are made by the 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 Bank uses a disciplined process and methodology to evaluate the allowance for loan losses on at least a quarterly basis that 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.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(1 - continued)

Loans and Allowance for Loan Losses - continued

The allowance consists of specific and general components. The specific component relates to loans that are individually evaluated for impairment or loans otherwise classified as doubtful, substandard, or special mention. For such loans that are 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 classified loans that are found, upon individual evaluation, to not be impaired. Such loans are pooled by segment and losses are modeled using annualized historical loss experience adjusted for qualitative factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Bank over the most recent three or five year period, whichever is greater. The Bank's actual loss experience is then adjusted for qualitative factors that are reviewed on a quarterly basis. Management considers changes and trends in the following qualitative loss factors: levels and trends in delinquencies and impaired loans, levels and trends in charge-offs and recoveries, trends in volume and terms of loans, economic trends and conditions, effects of changes in credit concentrations, changes in lending policies and procedures, and changes in lending and other relevant staff. Each qualitative factor is evaluated and an environmental factor adjustment is applied to the actual historical loss factors in determining the adjusted loss factors used in management's allowance for loan losses adequacy calculation.

Management exercises significant judgment in evaluating the relevant historical loss experience and the qualitative factors. Management also monitors the differences between estimated and actual incurred loan losses for loans considered impaired in order to evaluate the effectiveness of the estimation process and make any changes in the methodology as necessary.

The following portfolio segments are considered in the allowance for loan loss analysis: commercial one-to-four family mortgage, commercial and multi-family mortgage, secured commercial business, unsecured commercial business, residential one-to-four family mortgage, residential second mortgage and home equity lines of credit, and consumer.

Commercial one-to-four family mortgage loans primarily consist of loans secured by non-owner-occupied investment properties. Repayment of these loans is generally dependent on the borrower's ability to attract tenants at lease rates that provide for adequate cash flow to service the debt. These loans are also impacted by the market value of the property taken as collateral and general economic conditions of the local housing market.

Commercial and multi-family mortgage loans are comprised of loans secured by various types of collateral including office buildings, warehouses, retail space, mixed use buildings, apartment buildings and other multi-family properties located in the Bank's primary lending area. Risks related to commercial and multi-family real estate lending are related to the market value of the property taken as collateral, the underlying cash flows and general economic condition of the local real estate market. Repayment of these loans is generally dependent on the ability of the borrower to attract tenants at lease rates or general business operating cash flows that provide for adequate debt service and can be impacted by local economic conditions which impact vacancy rates and the general level of business activity. The Bank generally obtains loan guarantees from financially capable parties for commercial and multi-family mortgage loans.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(1 - continued)

Loans and Allowance for Loan Losses - continued

Commercial business loans include lines of credit to businesses, term loans and letters of credit secured by business assets such as equipment, accounts receivable, inventory, or other assets excluding real estate and are generally made to finance capital expenditures or fund operations. Commercial loans contain risks related to the value of the collateral securing the loan and the repayment is primarily dependent upon the financial success and viability of the borrower. As with commercial real estate loans, the Bank generally obtains loan guarantees from financially capable parties for commercial business loans.

Residential mortgage loans primarily consist of loans to individuals for the purchase or refinance of their primary residence. The Bank also grants second mortgage and home equity line of credit (HELOC) loans to qualifying borrowers that are generally secured by junior liens on the borrower's personal residence. The risks associated with residential real estate loans are closely correlated to the local housing market and general economic conditions.

Consumer loans consist primarily of automobile and truck loans, boat loans, loans secured by savings deposits, and other personal loans. The risks associated with these loans are related to the local housing market and local economic conditions including the unemployment level.

There were no significant changes to the Bank's accounting policies or methodology used to estimate the allowance for loan losses from the prior period.

Loan Charge-Offs

For portfolio segments other than consumer loans, 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. A partial charge-off is recorded on a loan when the uncollectibility of a portion of the loan has been confirmed, such as when a loan is discharged in bankruptcy, the collateral is liquidated, a loan is restructured at a reduced principal balance, or other identifiable events that lead management to determine the full principal balance of the loan will not be repaid. A specific reserve is recognized as a component of the allowance for estimated losses on loans individually evaluated for impairment. Partial charge-offs are included in the Bank's historical loss experience used to estimate the general component of the allowance for loan losses as discussed above.

During 2014 and 2013, the Bank recognized partial charge-offs on loans totaling \$8,000 and \$21,000, respectively. At June 30, 2014, the Bank had two commercial loans and 21 consumer loans on which partial charge-offs of \$79,000 and \$61,000, respectively, had been recorded. At June 30, 2013, the Bank had two commercial loans and 20 consumer loans on which partial charge-offs of \$79,000 and \$68,000, respectively, had been recorded.

Consumer loans not secured by real estate are typically charged off at 90 days past due, or earlier if deemed uncollectible, unless the loans are in the process of collection. Overdrafts are charged off after 60 days past due. Charge-offs are typically recorded on loans secured by real estate when the property is foreclosed upon when the carrying value of the loan exceeds the property's fair value less the estimated costs to sell.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(1 - continued)

Foreclosed Real Estate

At the time of foreclosure, foreclosed real estate is recorded at fair value less estimated costs to sell, 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 Company 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.

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.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(1 - continued)

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 exceed 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, 2014, the Bank had commitments to originate \$559,000 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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718 for its stock plans.

Advertising Costs

Advertising costs are charged to expense when incurred.

Cash Surrender Value of Life Insurance

The Bank has purchased life insurance policies on certain directors, officers and key employees to help offset costs associated with the Bank's compensation and benefit programs. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contracts at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

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 Company 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 consolidated statements of income.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(1 - continued)

Income Taxes – continued

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 consolidated 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.

Comprehensive Income

Comprehensive income consists of reported net income and other comprehensive income. Other comprehensive income refers to revenue, expenses, gains and losses that are recorded as an element of equity but are excluded from reported net income. Other comprehensive income includes changes in the unrealized gains and losses on securities available for sale.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

Recent Accounting Pronouncements

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

In December 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-11, *Balance Sheet (Topic 210)*. The update requires an entity to disclose information about offsetting and related arrangements to enable users of the financial statements to understand the effect of netting arrangements on the entity's financial position. The scope includes derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. ASU No. 2013-01 was issued in January 2013 to address implementation issues and clarify the scope of ASU No. 2011-11. The amendments in the updates are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods, with disclosures required by the amendments provided retrospectively for all comparative periods presented. The adoption of these ASUs did not have a material impact on the Company's financial position or results of operations.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(1 - continued)

Recent Accounting Pronouncements – continued

In February 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The update does not change the current requirements for reporting net income or other comprehensive income in financial statements. The amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. generally accepted accounting principles (U.S. GAAP) to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. For nonpublic entities, the amendments in the update are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Company's financial position or results of operations.

In July 2013, the FASB issued ASU No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. The amendments in ASU No. 2013-11 to Topic 740, *Income Taxes*, provide guidance on the financial statement presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Company's financial position or results of operations.

In January 2014, the FASB issued ASU No. 2014-04, *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40), Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. The objective of the amendments in this update is to reduce diversity in practice by clarifying when an in-substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amendments in the update clarify that an in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor, and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in the update are effective for nonpublic business entities for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. The adoption of this ASU is not expected to have a material impact on the Company's financial position or results of operations.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(1 - continued)

Recent Accounting Pronouncements – continued

In March 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The update provides a five-step revenue recognition model for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers (unless the contracts are included in the scope of other standards). The guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. For nonpublic entities, the guidance is effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018, and must be applied either retrospectively or using the modified retrospective approach. The adoption of this ASU is not expected to have a material impact on the Company's financial position or results of operations.

In August 2014, the FASB issued ASU No. 2014-14, *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40), Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure*. The objective of the amendments in this update is to reduce the diversity in how creditors classify government-guaranteed mortgage loans, including FHA and VA guaranteed loans, upon foreclosure by addressing the classification of certain foreclosed mortgage loans held by creditors that are either fully or partially guaranteed under government programs. The amendments in the update require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure; (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in the update are effective for nonpublic business entities for annual periods ending after December 15, 2015, and interim periods beginning after December 15, 2015. The adoption of this ASU is not expected to have a material impact on the Company's financial position or results of operations.

(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, 2014 was \$3,636,000.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(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, 2014 and 2013 is summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2014:				
Securities available for sale:				
Mortgage-backed securities	\$ 31,427	\$ 1,282	\$ 106	\$ 32,603
Asset-backed securities	2,500	-	-	2,500
Agency securities	11,381	8	119	11,270
Corporate obligations	2,592	119	524	2,187
Municipal bonds	<u>31,586</u>	<u>1,447</u>	<u>152</u>	<u>32,881</u>
Total securities available for sale	\$ <u>79,486</u>	\$ <u>2,856</u>	\$ <u>901</u>	\$ <u>81,441</u>

June 30, 2013:

Securities available for sale:				
Mortgage-backed securities	\$ 27,027	\$ 745	\$ 302	\$ 27,515
Asset-backed securities	5,985	60	-	6,045
SBA-backed securities	5,378	48	49	5,377
Agency securities	13,876	-	315	13,561
Corporate obligations	2,587	-	2,197	390
Municipal bonds	<u>33,472</u>	<u>1,421</u>	<u>405</u>	<u>34,488</u>
Total securities available for sale	\$ <u>88,370</u>	\$ <u>2,274</u>	\$ <u>3,268</u>	\$ <u>87,376</u>

The amortized cost and fair value of debt securities as of June 30, 2014, by contractual maturity, are shown below. Expected maturities of mortgage and other asset-backed securities may differ from contractual maturities because the loans underlying the obligations may be prepaid without penalty.

	<u>Securities Available for Sale</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 1,101	\$ 1,130
Due after one year through five years	9,407	9,857
Due after five years through ten years	21,268	21,925
Due after ten years	<u>13,783</u>	<u>13,426</u>
	45,559	46,338
Mortgage-backed securities	31,427	32,603
Asset-backed securities	<u>2,500</u>	<u>2,500</u>
	\$ <u>79,486</u>	\$ <u>81,441</u>

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(3 - continued)

Certain available for sale securities were pledged to secure repurchase agreements and Federal Home Loan Bank advances at June 30, 2014. (See Notes 10 and 11)

The following is a schedule of gross gains and losses realized on sales of available for sale debt securities for the years ended June 30, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
Mortgage-backed securities:		
Gross gains	\$ 44	\$ 6
Gross losses	-	(10)
	<u>44</u>	<u>(4)</u>
Asset-backed securities:		
Gross gains	26	-
Gross losses	-	-
	<u>26</u>	<u>-</u>
SBA-backed securities:		
Gross gains	19	2
Gross losses	(34)	(1)
	<u>(15)</u>	<u>1</u>
Municipal bonds:		
Gross gains	3	4
Gross losses	-	-
	<u>3</u>	<u>4</u>
Net gain	<u>\$ 58</u>	<u>1</u>

The following table presents the fair values and gross unrealized losses for temporarily impaired available for sale securities as of June 30, 2014 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	3	\$ 554	\$ 2
Municipal bonds	1	500	21
Total less than twelve months	<u>4</u>	<u>1,054</u>	<u>23</u>
Continuous loss position more than twelve months:			
Mortgage-backed securities	16	3,073	104
Agency securities	6	8,262	119
Corporate obligations	3	1,751	524
Municipal Bonds	19	5,617	131
Total more than twelve months	<u>44</u>	<u>18,703</u>	<u>878</u>
Total available for sale	<u>48</u>	<u>\$ 19,757</u>	<u>\$ 901</u>

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(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 agency securities and 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.

The Company did not recognize any other-than-temporary impairment write-down charges to earnings on corporate obligations relating to pooled trust securities during the years ended June 30, 2014 and 2013. Prior period credit losses on these 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 in these securities to be other-than-temporarily impaired at June 30, 2014.

The unrealized loss positions in mortgage-backed securities as of June 30, 2014 relate primarily to privately-issued CMO securities. During the years ended June 30, 2014 and 2013, the Company recognized aggregate other-than-temporary impairment write-down charges to earnings of \$42,000 and \$51,000, respectively, on privately-issued CMO securities. The aggregate credit losses were 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 in these securities to be other-than-temporarily impaired at June 30, 2014.

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.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(4) **LOANS**

Loans at June 30, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Commercial:		
One-to-four family mortgage	\$ 6,749	\$ 5,087
Commercial and multi-family mortgage	89,645	75,870
Commercial business (secured)	41,739	38,066
Commercial business (unsecured)	12,690	3,929
Residential:		
One-to-four family mortgage	49,624	46,243
Second mortgage and HELOCs	16,752	15,393
Consumer loans	<u>19,447</u>	<u>29,277</u>
Gross loans	236,646	213,865
Net deferred loan fees and costs	314	468
Allowance for loan losses	<u>(2,607)</u>	<u>(2,454)</u>
Loans, net	<u>\$ 234,353</u>	<u>\$ 211,879</u>

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, 2014. The beginning balance has been adjusted to reflect new directors and officers, as well as directors and officers that are no longer with the Company.

Beginning balance, as adjusted	\$ 3,308
New loans and advances	2,552
Payments	<u>(737)</u>
Ending balance	<u>\$ 5,123</u>

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(4 - continued)

The following table provides the components of the Bank's recorded investment in loans at June 30, 2014:

	Commercial				Residential			Total
	One-to-Four Family Mortgage	Commercial and Multi- Family Mortgage	Commercial Business (Secured)	Commercial Business (Unsecured)	One-to- Four Family Mortgage	Second Mortgage and HELOCs	Consumer	
Principal loan balance	\$ 6,749	\$ 89,645	\$ 41,739	\$ 12,690	\$ 49,624	\$ 16,752	\$ 19,447	\$ 236,646
Accrued interest receivable	21	441	109	25	126	49	57	828
Net deferred loan origination fees and costs	(10)	402	(46)	(2)	(110)	-	80	314
Recorded investment in loans	\$ 6,760	\$ 90,488	\$ 41,802	\$ 12,713	\$ 49,640	\$ 16,801	\$ 19,584	\$ 237,788

The following table provides the components of the Bank's recorded investment in loans at June 30, 2013:

	Commercial				Residential			Total
	One-to-Four Family Mortgage	Commercial and Multi- Family Mortgage	Commercial Business (Secured)	Commercial Business (Unsecured)	One-to- Four Family Mortgage	Second Mortgage and HELOCs	Consumer	
Principal loan balance	\$ 5,087	\$ 75,870	\$ 38,066	\$ 3,929	\$ 46,243	\$ 15,393	\$ 29,277	\$ 213,865
Accrued interest receivable	21	321	82	6	145	51	86	712
Net deferred loan origination fees and costs	(7)	464	(30)	(3)	(120)	-	164	468
Recorded investment in loans	\$ 5,101	\$ 76,655	\$ 38,118	\$ 3,932	\$ 46,268	\$ 15,444	\$ 29,527	\$ 215,045

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(4 - continued)

An analysis of the allowance for loan losses and recorded investment in loans as of and for the year ended June 30, 2014 is as follows:

	Commercial				Residential		Consumer	Total
	One-to-Four Family Mortgage	Commercial and Multi-Family Mortgage	Commercial Business (Secured)	Commercial Business (Unsecured)	One-to-Four Family Mortgage	Second Mortgage and HELOCs		
<u>Allowance for Loan Losses:</u>								
Beginning balance	\$ 477	\$ 629	\$ 805	\$ 22	\$ 44	\$ 91	\$ 386	\$ 2,454
Provisions	163	358	(353)	152	21	80	(181)	240
Charge-offs	-	(88)	-	-	-	(15)	(79)	(182)
Recoveries	17	3	-	-	-	-	75	95
Ending balance	<u>\$ 657</u>	<u>\$ 902</u>	<u>\$ 452</u>	<u>\$ 174</u>	<u>\$ 65</u>	<u>\$ 156</u>	<u>\$ 201</u>	<u>\$ 2,607</u>
<u>Ending allowance balance attributable to loans:</u>								
Individually evaluated for impairment	\$ 32	\$ 30	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 62
Collectively evaluated for impairment	625	872	452	174	65	156	201	2,545
Ending balance	<u>\$ 657</u>	<u>\$ 902</u>	<u>\$ 452</u>	<u>\$ 174</u>	<u>\$ 65</u>	<u>\$ 156</u>	<u>\$ 201</u>	<u>\$ 2,607</u>
<u>Recorded Investment in Loans:</u>								
Individually evaluated for impairment	\$ 657	\$ 4,723	\$ -	\$ -	\$ 124	\$ 134	\$ 177	\$ 5,815
Collectively evaluated for impairment	6,103	85,765	41,802	12,713	49,516	16,667	19,407	231,973
Ending balance	<u>\$ 6,760</u>	<u>\$ 90,488</u>	<u>\$ 41,802</u>	<u>\$ 12,713</u>	<u>\$ 49,640</u>	<u>\$ 16,801</u>	<u>\$ 19,584</u>	<u>\$ 237,788</u>

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(4 - continued)

An analysis of the allowance for loan losses and recorded investment in loans as of and for the year ended June 30, 2013 is as follows:

	<u>Commercial</u>				<u>Residential</u>		Consumer	Total
	<u>One-to-Four Family Mortgage</u>	<u>Commercial and Multi-Family Mortgage</u>	<u>Commercial Business (Secured)</u>	<u>Commercial Business (Unsecured)</u>	<u>One-to-Four Family Mortgage</u>	<u>Second Mortgage and HELOCs</u>		
<u>Allowance for Loan Losses:</u>								
Beginning balance	\$ 495	\$ 594	\$ 284	\$ 35	\$ 57	\$ 134	\$ 565	\$ 2,164
Provisions	(13)	123	521	(13)	(13)	(43)	(182)	380
Charge-offs	(13)	(88)	-	-	-	-	(119)	(220)
Recoveries	8	-	-	-	-	-	122	130
Ending balance	<u>\$ 477</u>	<u>\$ 629</u>	<u>\$ 805</u>	<u>\$ 22</u>	<u>\$ 44</u>	<u>\$ 91</u>	<u>\$ 386</u>	<u>\$ 2,454</u>
<u>Ending allowance balance attributable to loans:</u>								
Individually evaluated for impairment	\$ 7	\$ 25	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32
Collectively evaluated for impairment	470	604	805	22	44	91	386	2,422
Ending balance	<u>\$ 477</u>	<u>\$ 629</u>	<u>\$ 805</u>	<u>\$ 22</u>	<u>\$ 44</u>	<u>\$ 91</u>	<u>\$ 386</u>	<u>\$ 2,454</u>
<u>Recorded Investment in Loans:</u>								
Individually evaluated for impairment	\$ 487	\$ 3,386	\$ -	\$ -	\$ 176	\$ 51	\$ 224	\$ 4,324
Collectively evaluated for impairment	4,614	73,269	38,118	3,932	46,092	15,393	29,303	210,721
Ending balance	<u>\$ 5,101</u>	<u>\$ 76,655</u>	<u>\$ 38,118</u>	<u>\$ 3,932</u>	<u>\$ 46,268</u>	<u>\$ 15,444</u>	<u>\$ 29,527</u>	<u>\$ 215,045</u>

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(4 - continued)

The following table summarizes the Bank's impaired loans as of and for the year ended June 30, 2014:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Recognized – Cash Method
<u>Loans with no related allowance recorded:</u>						
Commercial:						
One-to-four family mortgage	\$ 257	\$ 257	\$ -	\$ 28	\$ -	\$ -
Commercial and multi-family mortgage	4,693	4,679	-	4,723	166	150
Residential:						
One-to-four family mortgage	124	124	-	90	-	4
Second mortgage and HELOCs	134	134	-	75	-	4
Consumer	177	238	-	218	-	14
	<u>5,385</u>	<u>5,432</u>	<u>-</u>	<u>5,134</u>	<u>166</u>	<u>172</u>
<u>Loans with an allowance recorded:</u>						
Commercial:						
One-to-four family mortgage	400	433	32	395	-	14
Commercial and multi-family mortgage	30	30	30	20	-	1
	<u>430</u>	<u>463</u>	<u>62</u>	<u>415</u>	<u>-</u>	<u>15</u>
	<u>\$ 5,815</u>	<u>\$ 5,895</u>	<u>\$ 62</u>	<u>\$ 5,549</u>	<u>\$ 166</u>	<u>\$ 187</u>

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(4 - continued)

The following table summarizes the Bank's impaired loans as of and for the year ended June 30, 2013:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Recognized – Cash Method
<u>Loans with no related allowance recorded:</u>						
Commercial:						
One-to-four family mortgage	\$ 112	\$ 112	\$ -	\$ 263	\$ -	\$ 17
Commercial and multi-family mortgage	3,362	3,382	-	2,231	43	41
Commercial business (secured)	-	-	-	13	-	3
Residential:						
One-to-four family mortgage	176	176	-	118	-	2
Second mortgage and HELOCs	51	51	-	34	-	3
Consumer	224	290	-	158	-	15
	<u>3,925</u>	<u>4,011</u>	<u>-</u>	<u>2,817</u>	<u>43</u>	<u>81</u>
<u>Loans with an allowance recorded:</u>						
Commercial:						
One-to-four family mortgage	375	408	7	360	-	14
Commercial and multi-family mortgage	24	25	25	310	-	47
	<u>399</u>	<u>433</u>	<u>32</u>	<u>670</u>	<u>43</u>	<u>61</u>
	<u>\$ 4,324</u>	<u>\$ 4,444</u>	<u>\$ 32</u>	<u>\$ 3,487</u>	<u>\$ 43</u>	<u>\$ 142</u>

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(4 - continued)

Nonperforming loans consists of nonaccrual loans and loans over 90 days past due and still accruing interest. The following table presents the recorded investment in nonperforming loans at June 30, 2014:

	Nonaccrual Loans	Loans 90+ Days Past Due Still Accruing	Total Nonperforming Loans
Commercial:			
One-to-four family mortgage	\$ 657	\$ -	\$ 657
Commercial and multi-family mortgage	1,376	1,121	2,497
Commercial business (secured)	-	-	-
Commercial business (unsecured)	-	-	-
Residential:			
One-to-four family mortgage	124	-	124
Second mortgage and HELOCs	134	-	134
Consumer	177	-	177
Total	\$ 2,468	\$ 1,121	\$ 3,589

The following table presents the recorded investment in nonperforming loans at June 30, 2013:

	Nonaccrual Loans	Loans 90+ Days Past Due Still Accruing	Total Nonperforming Loans
Commercial:			
One-to-four family mortgage	\$ 487	\$ -	\$ 487
Commercial and multi-family mortgage	2,636	-	2,636
Commercial business (secured)	-	-	-
Commercial business (unsecured)	-	-	-
Residential:			
One-to-four family mortgage	176	-	176
Second mortgage and HELOCs	51	-	51
Consumer	224	-	224
Total	\$ 3,574	\$ -	\$ 3,574

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(4 - continued)

The following table presents the aging of the recorded investment loans at June 30, 2014:

	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Current	Total Loans
Commercial:						
One-to-four family mortgage	\$ 404	\$ 12	\$ -	\$ 416	\$ 6,344	\$ 6,760
Commercial and multi-family mortgage	-	-	1,097	1,097	89,391	90,488
Commercial business (secured)	25	-	-	25	41,777	41,802
Commercial business (unsecured)	-	-	-	-	12,713	12,713
Residential:						
One-to-four family mortgage	402	41	131	574	49,066	49,640
Second mortgage and HELOCs	39	-	134	173	16,628	16,801
Consumer	293	157	117	567	19,017	19,584
Total	\$ 1,163	\$ 210	\$ 1,479	\$ 2,852	\$ 234,936	\$ 237,788

The following table presents the aging of the recorded investment loans at June 30, 2013:

	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Current	Total Loans
Commercial:						
One-to-four family mortgage	\$ 471	\$ 197	\$ -	\$ 668	\$ 4,433	\$ 5,101
Commercial and multi-family mortgage	25	1,352	1,155	2,532	74,123	76,655
Commercial business (secured)	1,059	263	-	1,322	36,796	38,118
Commercial business (unsecured)	-	-	-	-	3,932	3,932
Residential:						
One-to-four family mortgage	547	-	149	696	45,572	46,268
Second mortgage and HELOCs	157	13	55	225	15,219	15,444
Consumer	317	42	157	516	29,011	29,527
Total	\$ 2,576	\$ 1,867	\$ 1,516	\$ 5,959	\$ 209,086	\$ 215,045

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(4 - continued)

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, public information, historical payment experience, credit documentation, and current economic trends, among other factors. The Company classifies loans based on credit risk at least quarterly. The Bank uses the following regulatory definitions for risk ratings:

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss: Loans classified as loss are considered uncollectible and of such little value that their continuance on the institution's books as an asset, without establishment of a specific valuation allowance or charge-off, is not warranted.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(4 - continued)

The following table presents the recorded investment in loans by risk category as of June 30, 2014:

	Commercial				Residential			Total
	One-to-Four Family Mortgage	Commercial and Multi-Family Mortgage	Commercial Business (Secured)	Commercial Business (Unsecured)	One-to- Four Family Mortgage	Second Mortgage and HELOCs	Consumer	
Pass	\$ 6,030	\$ 87,353	\$ 37,855	\$ 12,713	\$ 49,640	\$ 16,700	\$ 19,278	\$ 229,569
Special mention	-	-	-	-	-	-	57	57
Substandard	730	3,135	3,947	-	-	101	249	8,162
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total	\$ 6,760	\$ 90,488	\$ 41,802	\$ 12,713	\$ 49,640	\$ 16,801	\$ 19,584	\$ 237,788

The following table presents the recorded investment in loans by risk category as of June 30, 2013:

	Commercial				Residential			Total
	One-to-Four Family Mortgage	Commercial and Multi-Family Mortgage	Commercial Business (Secured)	Commercial Business (Unsecured)	One-to- Four Family Mortgage	Second Mortgage and HELOCs	Consumer	
Pass	\$ 4,386	\$ 72,546	\$ 32,393	\$ 3,932	\$ 46,144	\$ 15,426	\$ 29,247	\$ 204,074
Special mention	-	11	480	-	-	-	33	524
Substandard	715	4,098	5,245	-	124	18	247	10,447
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total	\$ 5,101	\$ 76,655	\$ 38,118	\$ 3,932	\$ 46,268	\$ 15,444	\$ 29,527	\$ 215,045

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(4 - continued)

The following table summarizes the Company's troubled debt restructurings (TDRs) by accrual status as of June 30, 2014 and 2013:

	Accruing	Nonaccrual	Total	Related Allowance
June 30, 2014:				
Commercial:				
One-to-four family mortgage	\$ -	\$ 400	\$ 400	\$ 32
Commercial and multi-family mortgage	3,346	778	4,124	17
Total	\$ 3,346	\$ 1,178	\$ 4,524	\$ 49
June 30, 2013:				
Commercial:				
One-to-four family mortgage	\$ -	\$ 375	\$ 375	\$ 7
Commercial and multi-family mortgage	754	1,865	2,619	-
Total	\$ 754	\$ 2,240	\$ 2,994	\$ 7

At June 30, 2014 and 2013, commitments to lend additional funds to debtors whose loan terms have been modified in a TDR (both accruing and nonaccruing) totaled \$797,000 and \$737,000, respectively. These commitments represent the undisbursed portion of construction loans and letters of credit to borrowers that have outstanding loans classified as TDRs.

The following table summarizes loans that were restructured as TDRs during the years ended June 30, 2014 and 2013:

	Number of Contracts	Pre-Modification Outstanding Balance	Post-Modification Outstanding Balance
June 30, 2014:			
Commercial:			
Commercial and multi-family mortgage	3	\$ 2,659	\$ 2,676
June 30, 2013:			
Commercial:			
One-to-four family mortgage	5	\$ 1,764	\$ 1,796

For the TDRs restructured during the year ended June 30, 2014, the terms of modification included one loan with a temporary interest-only payment period and extension of the maturity date, one loan with an extension of the maturity date, and one loan that was re-amortized over a longer term to lower the monthly payment. For the TDRs restructured during the year ended June 30, 2013, the terms of modification included one loan with a temporary interest-only payment period, one loan with a reduction of the stated interest rate, one loan with an extension of the maturity date, and two loans where the monthly payment was decreased. There were no principal charge-offs recorded as a result of TDRs during the years ended June 30, 2014 and 2013. The specific allowance for loan losses related to TDRs modified during the year ended June 30, 2014 was \$17,000 at June 30, 2014. There was no specific allowance for loan losses related to TDRs modified during the year ended June 30, 2013 at June 30, 2013. In the event that a TDR subsequently defaults, the Company evaluates the restructuring for possible impairment. As a result, the related allowance for loan losses may be increased or charge-offs may be taken to reduce the carrying amount of the loan.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(4 - continued)

The following table summarizes TDRs modified during the years ended June 30, 2014 and 2013 that had payment defaults (over 60 days past due) within the previous twelve months:

	Number of Contracts	Outstanding Balance
June 30, 2014:		
Commercial:		
Commercial and multi-family mortgage	1	\$ 1,011
June 30, 2013:		
Commercial:		
One-to-four family mortgage	3	\$ 1,059

(5) **PREMISES AND EQUIPMENT**

Premises and equipment as of June 30, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Land	\$ 2,988	\$ 2,988
Buildings	11,961	10,400
Furniture and equipment	3,072	2,805
Construction in process	-	888
Less accumulated depreciation	<u>5,258</u>	<u>4,677</u>
Totals	<u>\$ 12,763</u>	<u>\$ 12,404</u>

Depreciation expense was \$731,000 and \$683,000 for the years ended June 30, 2014 and 2013, respectively.

In July 2012, the Bank acquired a commercial building adjacent to its main office for a total cost of \$2.0 million. Additional costs to remodel the building, which is being utilized as an operations center, totaled approximately \$888,000 through June 30, 2013. The remodeling was substantially complete at June 30, 2013 and the operations center was placed in service in July 2013.

(6) **FORECLOSED REAL ESTATE**

At June 30, 2014 and 2013, the Company had foreclosed real estate held for sale of \$2,066,000 and \$2,278,000, respectively. During the year ended June 30, 2014, no losses were charged-off to the allowance for loan losses at foreclosure. During the year ended June 30, 2013, losses in the amount of \$13,000 were charged-off to the allowance for loan losses at foreclosure. Losses on subsequent write downs of foreclosed real estate amounted to \$21,000 and \$10,000 in the fiscal years 2014 and 2013, respectively. Net realized loss from the sale of foreclosed real estate amounted to \$6,000 and \$3,000 for the years ended June 30, 2014 and 2013, respectively. Real estate taxes and other expenses of holding foreclosed real estate amounted to \$201,000 and \$180,000 for the years ended June 30, 2014 and 2013, respectively. These expenses are reported in noninterest expense. Income from foreclosed real estate amounted to \$248,000 and \$261,000 for the years ended June 30, 2014 and 2013, respectively, and is reported in other noninterest income. At June 30, 2014 and 2013, deferred gains on the sale of foreclosed real estate financed by the Company totaled \$24,000.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

(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, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Balance, beginning of year	\$ 6,229	\$ 6,229
Changes in goodwill	-	-
Balance, end of year	<u>\$ 6,229</u>	<u>\$ 6,229</u>

The carrying basis and accumulated amortization of the core deposit intangible at June 30, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Gross carrying amount	\$ 1,474	\$ 1,474
Accumulated amortization	(1,262)	(1,168)
Net balance	<u>\$ 212</u>	<u>\$ 306</u>

Amortization expense related to the core deposit intangible for the years ended June 30, 2014 and 2013 was \$94,000. Estimated amortization expense for each of the following five years is as follows: \$94,000, \$94,000 and \$24,000 for the years ending June 30, 2015, 2016 and 2017, respectively.

(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 \$123,286,000 and \$124,084,000 at June 30, 2014 and 2013, respectively. Contractually specified servicing fees, late fees and "ancillary fees" of approximately \$336,000 and \$317,000 are included in other noninterest income in the consolidated statements of income at June 30, 2014 and 2013, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing and included in demand deposits, were approximately \$988,000 and \$768,000 at June 30, 2014 and 2013, respectively.

The aggregate fair value of capitalized mortgage-servicing rights at June 30, 2014 and 2013, 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, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Mortgage servicing rights:		
Balance, beginning of year	\$ 1,191	\$ 1,051
Servicing rights capitalized	260	585
Amortization of servicing rights	(257)	(445)
Balance, end of year	<u>\$ 1,194</u>	<u>\$ 1,191</u>

Elucidate services loans on behalf of other parties that are not included in the accompanying consolidated balance sheet. The unpaid principal balance of loans serviced by Elucidate for others was \$53,000 at June 30, 2014. Servicing fees received by Elucidate are included in loan interest income in the accompanying consolidated income statements. Management has determined that the fair value of servicing rights related to loans serviced by Elucidate was immaterial at June 30, 2014.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(9) **DEPOSITS**

The aggregate amount of time deposit accounts of \$100,000 or more amounted to approximately \$26,514,000 and \$15,101,000 at June 30, 2014 and 2013, respectively.

At June 30, 2014, scheduled maturities of time deposits were as follows:

Year ending June 30:

2015	\$ 41,291
2016	16,586
2017	3,238
2018	1,196
2019	368
2020 and thereafter	<u>1,994</u>
Total	<u>\$ 64,673</u>

The Bank held deposits of approximately \$4.2 million and \$4.1 million for related parties including directors, officers, employees and their affiliates at June 30, 2014 and 2013, respectively.

(10) **REPURCHASE AGREEMENT**

At June 30, 2014 and 2013, 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 2014 and 2013 was \$8,000,000 and the monthly average of such agreements totaled \$8,000,000 during 2014 and 2013. 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, 2014, debt securities underlying the agreement had a fair value of \$10,264,000.

(11) **ADVANCES FROM FEDERAL HOME LOAN BANK**

At June 30, 2014 and 2013, advances from the FHLB were as follows:

<i>(Dollars in thousands)</i>	<u>2014</u>		<u>2013</u>	
	Weighted Average Rate	Amount	Weighted Average Rate	Amount
Fixed rate putable advances	3.62%	\$ <u>60,000</u>	3.62%	\$ <u>60,000</u>

The following is a schedule of maturities for advances outstanding as of June 30, 2014:

Due in the year ending June 30,:

2015	\$ -
2016	-
2017	15,000
2018	35,000
2019	<u>10,000</u>
Total	<u>\$ 60,000</u>

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(11 - continued)

The advances are secured under a blanket collateral agreement. At June 30, 2014, the carrying value of qualifying residential mortgage loans and investment securities pledged as security for the advances was \$75,643,000 and \$28,669,000, respectively.

The Company also has a \$6,000,000 Overdraft Line of Credit agreement with the FHLB. This agreement was set to expire in July 2014 but was extended for another one year term. There were no borrowings under this line of credit at June 30, 2014 and 2013.

(12) **OTHER BORROWINGS**

Other borrowings outstanding as of June 30, 2014 and 2013 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. The interest rate on the debentures was 1.65% and 1.69% at June 30, 2014 and 2013, respectively.

The Bank also has a \$5 million federal funds line of credit agreement with another financial institution. The line of credit has an indefinite term and may be cancelled by either party with proper notice. There were no outstanding borrowings under this line of credit at June 30, 2014 and 2013.

(13) **INCOME TAXES**

The components of income tax expense were as follows:

	<u>2014</u>	<u>2013</u>
Current	\$ 182	\$ 137
Deferred	(54)	(111)
Totals	<u>\$ 128</u>	<u>\$ 26</u>

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

	<u>2014</u>	<u>2013</u>
Provision at federal statutory rate	\$ 526	\$ 554
State income tax-net of federal tax benefit	(8)	(20)
Cash surrender value of life insurance	(80)	(96)
Tax exempt interest	(312)	(340)
Other	2	(72)
Total income tax expense	<u>\$ 128</u>	<u>\$ 26</u>

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(13 - continued)

Significant components of the Company's net deferred tax asset as of June 30, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Deferred tax assets (liabilities):		
Allowance for loan losses	\$ 995	\$ 930
Deferred compensation and directors' fees	93	113
Unrealized loss on available for sale securities	-	423
Accrued vacation	105	97
Acquisition adjustments	8	18
State net operating loss carryforward	40	53
Other-than-temporary impairment loss on securities available for sale	524	520
Alternative minimum tax credit carryover	685	554
Charitable contribution carryover	12	5
Capital loss carryover	35	35
Indiana enterprise zone interest credit carryforwards	29	18
Other	43	98
Subtotal – deferred tax assets	<u>2,569</u>	<u>2,864</u>
Unrealized gain on available for sale securities	(688)	-
Depreciation	(370)	(331)
Federal Home Loan Bank stock dividends	(101)	(101)
Mortgage servicing rights	(455)	(451)
Core deposit intangible	(62)	(84)
Goodwill	(612)	(560)
Prepaid assets	(158)	(157)
Subtotal – deferred tax liabilities	<u>(2,446)</u>	<u>(1,684)</u>
Net deferred tax asset	<u>\$ 123</u>	<u>\$ 1,180</u>

The Company has charitable contributions carryovers of approximately \$35,000 available to reduce federal taxable income in subsequent years. The carryovers expire as follows: \$12,000, \$17,000 and \$6,000 for the years ending June 30, 2016, 2017 and 2018, respectively.

The Company has a capital loss carryover of \$84,000 available to reduce federal taxable income in subsequent years. The carryover expires for the year ending June 30, 2015.

The Company has Indiana net operating loss carryovers of approximately \$505,000 available to reduce Indiana taxable income in subsequent years. The net operating loss carryovers expire for the years ending June 30, 2029 through 2032. The Company also has Indiana enterprise zone tax credits of \$29,000 available to reduce Indiana franchise taxes in subsequent years. The credit carryovers expire for the years ending June 30, 2021 through 2024.

At June 30, 2014 and 2013, 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, 2011 are subject to examination by the relevant taxing authorities.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(13 - continued)

Retained earnings at June 30, 2014 and 2013 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, 2014 and 2013.

(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, 2014 and 2013.

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 \$245,000 and \$221,000 for the years ended June 30, 2014 and 2013, 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 \$40,000 and \$37,000 for the years ended June 30, 2014 and 2013, respectively.

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 trust borrowed \$874,000 from the Company and used those funds to acquire 87,400 shares of the Company's common stock at \$10 per share. During 2000, the ESOP trust borrowed an additional \$980,000 from the Company and used those funds to acquire 94,392 shares of the Company's common stock at an average price of \$10.39 per share.

Prior to January 1, 2011 the Bank made annual contributions to the ESOP trust equal to the debt service less dividends received by the ESOP trust. All dividends received by the ESOP trust were used for debt service. The shares held by the ESOP trust were pledged as collateral for its debt. As the debt was repaid, shares were released from collateral and allocated to 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 unearned ESOP shares in the consolidated balance sheets. As shares are committed to be released from collateral, compensation expense is recognized 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.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(14 - continued)

At December 31, 2010, the ESOP loan from the Company was repaid in full. Following the repayment of the Company loan and allocation to plan participants of all of the original common shares acquired by the ESOP trust as of December 31, 2010, the board of directors approved additional contributions to the ESOP trust of \$15,000 per month resulting in additional ESOP compensation expense of \$180,000 for the years ended June 30, 2014 and 2013. The additional ESOP contributions are used to acquire Company shares from terminated participants or in the open market, and are allocated to plan participants on December 31 each year. The ESOP had acquired 5,222 and 12,514 common shares from terminated participants or in the open market as of June 30, 2014 and 2013, respectively, that will be allocated to ESOP participants on December 31, 2014 and 2013, respectively.

Shares held by the ESOP at June 30, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Allocated shares	169,800	158,653
Unallocated shares	<u>5,222</u>	<u>12,514</u>
Total ESOP shares	<u>175,022</u>	<u>171,167</u>
Fair value of unallocated shares and at June 30	<u>\$ 74,000</u>	<u>\$ 163,000</u>

(15) **STOCK-BASED COMPENSATION PLANS**

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 2014 and 2013, no options were granted.

Under the 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, 2014.

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	22,724	\$ 19.33		
Granted	-	-		
Exercised	-	-		
Forfeited or expired	<u>22,724</u>	19.33		
Outstanding at end of year	<u>-</u>	\$ -	-	\$ -
Exercisable at end of year	<u>-</u>	\$ -	-	\$ -

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(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 consolidated financial statements.

Commitments under outstanding standby letters of credit totaled \$1,014,000 and \$1,242,000 at June 30, 2014 and 2013, respectively.

The following is a summary of commitments to extend credit at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Loan commitments:		
Fixed rate	\$ 839	\$ 1,683
Adjustable rate	4,157	7,053
Residential and commercial loans in process	961	975
Undisbursed commercial and personal lines of credit	<u>26,775</u>	<u>23,486</u>
Total commitments to extend credit	<u>\$ 32,732</u>	<u>\$ 33,197</u>

(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 2014 or 2013.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(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 federal and state banking regulations. 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 federal and state banking regulations, or below the amount of the liquidation account established upon completion of the conversion of the Bank from mutual to stock form.

(19) 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.

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, 2014, that the Bank meets all capital adequacy requirements to which it is subject.

As of June 30, 2014, the most recent notification from the FDIC 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.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(19 - continued)

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

<i>(Dollars in thousands)</i>	Actual		Minimum For Capital Adequacy Purposes:		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2014:						
Total capital (to risk weighted assets)	\$ 35,399	13.38%	\$ 21,169	8.00%	\$ 26,641	10.00%
Tier I capital (to risk weighted assets)	\$ 32,792	12.39%	\$ 10,584	4.00%	\$ 15,876	6.00%
Tier I capital (to adjusted total assets)	\$ 32,792	8.74%	\$ 15,003	4.00%	\$ 18,754	5.00%
Tangible capital (to adjusted total assets)	\$ 32,792	8.74%	\$ 5,626	1.50%	N/A	
As of June 30, 2013:						
Total capital (to risk weighted assets)	\$ 35,335	13.93%	\$ 20,288	8.00%	\$ 25,360	10.00%
Tier I capital (to risk weighted assets)	\$ 32,881	12.97%	\$ 10,144	4.00%	\$ 15,216	6.00%
Tier I capital (to adjusted total assets)	\$ 32,881	8.58%	\$ 15,336	4.00%	\$ 19,170	5.00%
Tangible capital (to adjusted total assets)	\$ 32,881	8.58%	\$ 5,751	1.50%	N/A	

(20) **SUPPLEMENTAL DISCLOSURES FOR STATEMENTS OF CASH FLOWS**

	<u>2014</u>	<u>2013</u>
Cash payments for:		
Interest	\$ 3,342	\$ 3,748
Income taxes (net of refunds received)	103	190
Noncash investing activities:		
Transfer of loans to foreclosed real estate	-	14
Loans to facilitate the sale of foreclosed real estate	-	92

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(21) **DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS**

U.S. 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. U.S. 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, 2014 and 2013 are as follows:

	<u>2014</u>		<u>2013</u>	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 21,063	\$ 21,063	\$ 36,854	\$ 36,854
Interest bearing time deposits	1,724	1,724	744	744
Securities available for sale	81,441	81,441	87,376	87,376
Loans held for sale	-	-	2,115	2,162
Loans	236,960	238,940	214,333	217,604
Less: allowance for loan losses	<u>(2,607)</u>	<u>(2,607)</u>	<u>(2,454)</u>	<u>(2,454)</u>
	<u>234,353</u>	<u>236,333</u>	<u>211,879</u>	<u>215,150</u>
Federal Home Loan Bank stock	4,305	4,305	4,305	4,305
Accrued interest receivable	1,309	1,309	1,216	1,216
Financial liabilities:				
Deposits	260,980	261,118	264,948	265,160
Borrowed funds	73,155	79,261	73,155	80,402
Accrued interest payable	198	198	188	188
Advance payments by borrowers for taxes and insurance	1,150	1,150	932	932

The carrying amounts in the preceding table are included in the consolidated balance sheets under the applicable captions. The contractual or notional amounts of financial instruments with off-balance-sheet risk are disclosed in Note 16, and the fair value of these instruments is considered immaterial.

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, reverse repurchase agreements and money market funds, the carrying amount is a reasonable estimate of fair value.

Interest-Bearing Time Deposits

For interest-bearing time deposits in other banks, the carrying amount is a reasonable estimate of fair value.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(21 - continued)

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 FHLB 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. The fair value of loans held for sale is based on specific prices of underlying contracts for sale to investors.

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.

(22) **FAIR VALUE MEASUREMENTS**

FASB ASC Topic 820, *Fair Value Measurements*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC Topic 820 are described as follows:

- 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.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(22 - continued)

Level 2: Inputs to the valuation methodology include quoted market prices for similar assets or liabilities in active markets; quoted market prices for identical or similar assets or liabilities in markets that are not active; or inputs 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 and nonrecurring basis as of June 30, 2014. The Company had no liabilities measured at fair value as of June 30, 2014.

	Carrying Value			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
June 30, 2014:				
Assets Measured on a Recurring Basis				
Securities available for sale:				
Mortgage-backed securities	\$ -	\$ 32,603	\$ -	\$ 32,603
Asset-backed securities	-	2,500	-	2,500
Agency securities	-	11,270	-	11,270
Corporate obligations	-	1,581	606	2,187
Municipal bonds	-	32,881	-	32,881
Total securities available for sale	<u>\$ -</u>	<u>\$ 80,835</u>	<u>\$ 606</u>	<u>\$ 81,441</u>
Assets Measured on a Nonrecurring Basis				
Impaired loans:				
Commercial:				
One-to-four family mortgage	\$ -	\$ -	\$ 625	\$ 625
Commercial and multi-family mortgage	-	-	4,693	4,693
Residential:				
One-to-four family mortgage	-	-	124	124
Second mortgage and HELOCs	-	-	134	134
Consumer	-	-	177	177
Total impaired loans	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,753</u>	<u>\$ 5,753</u>
Foreclosed real estate – One-to-four family	\$ -	\$ -	\$ 2,066	\$ 2,066

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(22 – continued)

The table below presents the balances of assets measured at fair value on a recurring and nonrecurring basis as of June 30, 2013. The Company had no liabilities measured at fair value as of June 30, 2013.

	Carrying Value			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
June 30, 2013:				
<i>Assets Measured on a Recurring Basis</i>				
Securities available for sale				
Mortgage-backed securities	\$ -	\$ 27,515	\$ -	\$ 27,515
Asset-backed securities	-	6,045	-	6,045
SBA-backed securities	-	5,377	-	5,377
Agency securities	-	13,561	-	13,561
Corporate obligations	-	282	108	390
Municipal bonds	-	34,488	-	34,488
Total securities available for sale	<u>\$ -</u>	<u>\$ 87,268</u>	<u>\$ 108</u>	<u>\$ 87,376</u>
<i>Assets Measured on a Nonrecurring Basis</i>				
Loans held for sale	\$ -	\$ 2,115	\$ -	\$ 2,115
Impaired loans:				
Commercial:				
One-to-four family mortgage	\$ -	\$ -	\$ 480	\$ 480
Commercial and multi-family mortgage	-	-	3,361	3,361
Residential:				
One-to-four family mortgage	-	-	176	176
Second mortgage and HELOCs	-	-	51	51
Consumer	-	-	224	224
Total impaired loans	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,292</u>	<u>\$ 4,292</u>
Foreclosed real estate – One-to-four family	\$ -	\$ -	\$ 2,278	\$ 2,278

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.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(22 – continued)

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. For securities where quoted market prices, market prices of similar securities or prices from an independent third party pricing service are not available, fair values are calculated using discounted cash flows or other market indicators and are classified within Level 3 of the fair value hierarchy. 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 is 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 reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly. The fair value of impaired loans is classified as Level 3 in the fair value hierarchy.

Impaired loans are carried at the present value of estimated future cash flows using the loan's effective interest rate or the fair value of collateral less estimated costs to sell if the loan is collateral dependent. At June 30, 2014 and 2013, all impaired loans were considered to be collateral dependent for the purpose of determining fair value. Collateral may be real estate and/or business assets, including equipment, inventory and/or accounts receivable. The fair value of the collateral is generally determined based on real estate appraisals or other independent evaluations by qualified professionals, adjusted for estimated costs to sell the property, costs to complete or repair the property and other factors to reflect management's estimate of the fair value of the collateral given the current market conditions and the condition of the collateral.

At June 30, 2014 and 2013, the significant unobservable inputs used in the fair value measurement of impaired loans included a discount from appraised value ranging from 0% to 10% for estimates of changes in market conditions and the condition of the collateral, and estimated costs to sell the collateral. The Company recognized provisions for loan losses of \$38,000 and \$31,000 for the years ended June 30, 2014 and 2013, respectively, for impaired loans.

Foreclosed Real Estate Held for Sale. Foreclosed real estate is reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly. The fair value of foreclosed real estate is classified as Level 3 in the fair value hierarchy

Foreclosed real estate is reported at fair value less estimated costs to dispose of the property. The fair values are determined by real estate appraisals which are then discounted to reflect management's estimate of the fair value of the property given current market conditions and the condition of the collateral.

At June 30, 2014 and 2013, the significant unobservable inputs used in the fair value measurement of foreclosed real estate included a discount from appraised value (including estimated costs to sell the property) ranging from 0% to 42% with a weighted average of 7%. The Company recognized charges of \$21,000 and \$10,000 to write down foreclosed real estate to fair value for the years ended June 30, 2014 and 2013, respectively.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

(22 – continued)

Transfers Between Categories. There have been no changes in the valuation techniques and related inputs used for assets measured at fair value on a recurring and nonrecurring basis during the years ended June 30, 2014 and 2013. There were no transfers in or out of the Company's Level 3 financial assets for the years ended June 30, 2014 and 2013. In addition, there were no transfers into or out of Levels 1 and 2 of the fair value hierarchy during the years ended June 30, 2014 and 2013.

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 years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 108	\$ 79
Total gains or (losses) (both realized/unrealized):		
Recognized in earnings (noninterest income)	-	-
Recognized in other comprehensive income	494	23
Net settlements	4	6
Transfers into Level 3	<u>-</u>	<u>-</u>
Ending balance	\$ <u>606</u>	\$ <u>108</u>

No losses were recognized in earnings for the years ended June 30, 2014 and 2013 attributable to Level 3 assets still held at the balance sheet date.

(23) **CONCENTRATIONS OF CREDIT RISK**

At June 30, 2014, the Company had concentrations of credit risk with correspondent banks that included bank deposits in the amount of \$38,000 in excess of the federal deposit insurance limit.

(24) **SUBSEQUENT EVENTS**

Management 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 23, 2014, the date these financial statements were available to be issued. Management has determined that there are no such subsequent events.