

# **Northeast Indiana Bancorp, Inc.**

Accountants' Report and Consolidated Financial Statements

December 31, 2010 and 2009

# Northeast Indiana Bancorp, Inc.

December 31, 2010 and 2009

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## Independent Accountants' Report

Audit Committee of the Board of Directors  
Northeast Indiana Bancorp, Inc.  
Huntington, Indiana

We have audited the accompanying consolidated balance sheets of Northeast Indiana Bancorp, Inc. as of December 31, 2010 and 2009, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northeast Indiana Bancorp, Inc. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*BKD, LLP*

Indianapolis, Indiana  
March 18, 2011

**Northeast Indiana Bancorp, Inc.**  
**Consolidated Balance Sheets**  
**December 31, 2010 and 2009**

**Assets**

	<u>2010</u>	<u>2009</u>
Interest-earning cash and cash equivalents	\$ 9,450,979	\$ 10,929,272
Noninterest-earning cash and cash equivalents	2,045,215	2,473,235
Cash and cash equivalents	11,496,194	13,402,507
Available-for-sale securities	42,184,592	28,321,098
Held-to-maturity securities	400,000	550,000
Loans receivable, net of allowance for loan losses of \$3,227,844 in 2010 and \$2,868,468 in 2009	182,913,386	191,267,218
Loans held for sale	353,642	53,200
Accrued interest receivable	981,357	1,040,528
Premises and equipment, net	2,554,170	2,158,406
FHLB stock	4,293,100	4,704,200
Investments in limited liability partnerships	233,001	317,643
Cash surrender value of life insurance	6,765,215	6,514,390
Goodwill	130,972	130,972
Other intangible assets	37,410	62,382
Other assets	3,758,401	4,201,796
	<u>\$ 256,101,440</u>	<u>\$ 252,724,340</u>

**Liabilities and Shareholders' Equity**

**Liabilities**

Deposits		
Demand - noninterest-bearing	\$ 14,301,482	\$ 11,065,663
Savings	19,532,854	15,937,128
Negotiable order of withdrawal	59,065,488	37,417,925
Money market demand account	18,470,045	10,142,319
Time	65,031,583	80,066,486
Total deposits	176,401,452	154,629,521
Borrowed funds	53,565,973	73,064,228
Accrued expenses and other liabilities	2,108,866	2,065,832
Total liabilities	<u>232,076,291</u>	<u>229,759,581</u>

**Shareholders' Equity**

Common stock, \$.01 par value; 4,000,000 shares authorized; 2,593,988 shares issued and outstanding - 2010 and 2009	26,407	26,407
Additional paid-in capital	29,746,195	29,810,101
Retained earnings, substantially restricted	15,552,965	14,395,988
Accumulated other comprehensive income, net of tax	124,991	253,361
Treasury stock, at cost; 1,354,042 shares - 2010, 1,363,318 shares - 2009	(21,425,409)	(21,521,098)
Total shareholders' equity	<u>24,025,149</u>	<u>22,964,759</u>
Total liabilities and shareholders' equity	<u>\$ 256,101,440</u>	<u>\$ 252,724,340</u>

**Northeast Indiana Bancorp, Inc.**  
**Consolidated Statements of Income**  
**Years Ended December 31, 2010 and 2009**

	<b>2010</b>	<b>2009</b>
<b>Interest Income</b>		
Loans, including fees	\$ 11,497,598	\$ 12,484,711
Taxable securities	1,037,010	1,136,907
Non-taxable securities	351,611	178,612
Deposits with financial institutions	6,854	3,526
Total interest income	12,893,073	13,803,756
<b>Interest Expense</b>		
Deposits	2,796,985	3,183,291
Borrowed funds	1,536,974	2,466,178
Total interest expense	4,333,959	5,649,469
<b>Net Interest Income</b>	8,559,114	8,154,287
<b>Provision for Loan Losses</b>	1,700,000	1,400,000
<b>Net Interest Income After Provision for Loan Losses</b>	6,859,114	6,754,287
<b>Noninterest Income</b>		
Service charges on deposit accounts	669,294	707,905
Net loss on securities	(171,470)	(234,235)
Net gains on sales of loans	787,771	754,283
Net gain (loss) on sale of repossessed assets	27,390	(123,219)
Increase in cash surrender value of life insurance	250,793	260,973
Brokerage fees	385,474	303,521
Other	661,765	668,045
Total noninterest income	2,611,017	2,337,273
<b>Noninterest Expense</b>		
Salaries and employee benefits	3,369,347	3,052,370
Occupancy	887,338	861,214
Data processing	766,761	753,975
Deposit insurance premium	317,400	381,000
Professional fees	296,711	287,353
Correspondent bank charges	124,496	122,861
Other	904,795	882,669
Total noninterest expense	6,666,848	6,341,442
<b>Income Before Income Tax</b>	2,803,283	2,750,118
Income tax expense	790,985	872,160
<b>Net Income</b>	\$ 2,012,298	\$ 1,877,958
<b>Basic Earnings Per Common Share</b>	\$ 1.64	\$ 1.53
<b>Diluted Earnings Per Common Share</b>	\$ 1.64	\$ 1.53

**Northeast Indiana Bancorp, Inc.**  
**Consolidated Statements of Shareholders' Equity**  
**Years Ended December 31, 2010 and 2009**

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Treasury Stock	Total
<b>Balance, January 1, 2009</b>	\$ 26,407	\$ 29,790,224	\$ 13,336,427	\$ 143,373	\$ (21,521,098)	\$ 21,775,333
Comprehensive income						
Net income			1,877,958			1,877,958
Other comprehensive income						
Net change in unrealized gains on securities available for sale				96,461		96,461
Total tax effect				13,527		13,527
Total other comprehensive income				109,988		109,988
Total comprehensive income						1,987,946
Cash dividends (\$.665 per share)			(818,397)			(818,397)
Amortization of RRP contributions		19,877				19,877
<b>Balance, December 31, 2009</b>	26,407	29,810,101	14,395,988	253,361	(21,521,098)	22,964,759
Comprehensive income						
Net income			2,012,298			2,012,298
Other comprehensive income						
Net change in unrealized gains on securities available for sale				(421,589)		(421,589)
Total tax effect				293,219		293,219
Total other comprehensive loss				(128,370)		(128,370)
Total comprehensive income						1,883,928
Cash dividends (\$.685 per share)			(855,321)			(855,321)
Issuance of 9,276 shares of treasury stock		(95,689)			95,689	-
Amortization of RRP contributions		31,783				31,783
<b>Balance, December 31, 2010</b>	\$ 26,407	\$ 29,746,195	\$ 15,552,965	\$ 124,991	\$ (21,425,409)	\$ 24,025,149

# Northeast Indiana Bancorp, Inc.

## Consolidated Statements of Cash Flows

### Years Ended December 31, 2010 and 2009

	2010	2009
<b>Operating Activities</b>		
Net income	\$ 2,012,298	\$ 1,877,958
Items not requiring cash		
Depreciation and amortization	548,596	365,141
Provision for loan losses	1,700,000	1,400,000
Deferred income tax expense	45,694	254,001
Net (gain) loss on sale of		
Foreclosed real estate and repossessed assets	55,987	121,517
Loans held for sale	(787,771)	(754,283)
Net loss on securities available for sale	171,470	234,235
Originations of loans held for sale	(27,867,904)	(32,107,059)
Proceeds from loans sold	28,355,233	33,517,542
Amortization of RRP	31,783	19,877
Changes in		
Other assets	426,580	(1,655,829)
Accrued interest receivable	59,171	30,180
Accrued expenses and other liabilities	43,034	(717,017)
Net cash provided by operating activities	4,794,171	2,586,263
<b>Investing Activities</b>		
Purchases of available-for-sale securities	(28,855,850)	(6,506,570)
Proceeds from maturities and principal payments of		
Available-for-sale securities	6,759,255	3,772,834
Held-to-maturity securities	150,000	-
Proceeds from the sales of available-for-sale securities	7,417,999	2,616,944
Purchases of loans	(2,500,000)	(912,501)
Proceeds from sale of participation loans	5,270,318	5,890,000
Net change in loans	2,308,174	5,570,453
Proceeds from sale of foreclosed real estate and repossessed assets	1,558,808	1,007,041
Proceeds from FHLB stock redemption	411,100	-
Expenditures on premises and equipment	(638,643)	(222,470)
Net cash provided by (used in) investing activities	(8,118,839)	11,215,731
<b>Financing Activities</b>		
Net change in deposits	21,771,931	(1,069,244)
Advances from FHLB	5,000,000	28,750,000
Repayment of FHLB advances	(22,000,000)	(33,250,000)
Net change in other borrowed funds	(2,498,255)	(2,418,347)
Dividends paid	(855,321)	(818,397)
Net cash provided by (used in) financing activities	1,418,355	(8,805,988)
<b>Net Change in Cash and Cash Equivalents</b>	(1,906,313)	4,996,006
<b>Cash and Cash Equivalents, Beginning of Year</b>	13,402,507	8,406,501
<b>Cash and Cash Equivalents, End of Year</b>	\$ 11,496,194	\$ 13,402,507
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 4,383,433	\$ 5,800,982
Income taxes paid	536,000	855,000
<b>NonCash Transactions</b>		
Transfer from loans to other real estate and repossessed assets	1,575,340	956,008

**Northeast Indiana Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010 and 2009**

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

***Nature of Operations***

The consolidated financial statements include the accounts of Northeast Indiana Bancorp, Inc. (Northeast Indiana Bancorp) and its wholly owned subsidiary, First Federal Savings Bank (First Federal) and its wholly owned subsidiary, FFSB Portfolio Holdings, Inc. (Nevada Investment Subsidiary) and its wholly owned subsidiary, FFSB Real Estate Holdings, Inc. (REIT), together referred to as (Company). Northeast Indiana Bancorp, Inc. was organized for the purpose of owning all of the outstanding stock of First Federal.

During 2009, First Federal organized the Nevada Investment Subsidiary and transferred certain securities to be managed by Nevada Investment Subsidiary. In addition, the REIT was organized in Maryland as a subsidiary of the Nevada Investment Subsidiary. First Federal transferred a significant amount of its single family mortgage portfolio into the REIT during 2009. The establishment of these two operating subsidiaries of First Federal will help the Company to reduce its state franchise tax liability going forward.

The primary source of income for the Company is the origination of commercial and residential real estate loans in northeastern Indiana. Loans secured by real estate mortgages comprise approximately 77% of the loan portfolio at December 31, 2010 and 2009, and are primarily secured by residential mortgages.

***Principles of Consolidation***

The consolidated financial statements include the accounts of the Company. All significant intercompany accounts and transactions have been eliminated in consolidation.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses 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 the valuation of foreclosed assets held for sale, management obtains independent appraisals for significant properties.

**Northeast Indiana Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010 and 2009**

***Securities***

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For debt securities with fair value below amortized cost when the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

For equity securities, when the Company has decided to sell an impaired available-for-sale security and the entity does not expect the fair value of the security to fully recover before the expected time of sale, the security is deemed other-than-temporarily impaired in the period in which the decision to sell is made. The Company recognizes an impairment loss when the impairment is deemed other than temporary even if a decision to sell has not been made.

***Loans Held for Sale***

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

***Loans***

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs and an allowance for loan losses. Loans held for sale are reported at the lower of cost or market, on an aggregate basis.

**Northeast Indiana Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
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Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired or payments are past due over 90 days. Past due status is based on the contractual terms of the loan. Payments received on such loans are reported as principal reductions. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on nonaccrual status is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

***Allowance for Loan Losses***

The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries incurred. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed.

A loan is impaired when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential mortgage, consumer, and credit card loans, and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Loans are evaluated for impairment when payments are delayed, typically 90 days or more, or when it is probable that all principal and interest amounts will not be collected according to the original terms of the loan.

***Foreclosed Assets***

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less estimated costs to sell when acquired, establishing a new cost basis. If the value subsequently declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed. Foreclosed assets totaled \$594,000 and \$875,000 at December 31, 2010 and 2009, respectively.

**Northeast Indiana Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010 and 2009**

***Investments in Limited Liability Partnerships***

These represent the Company's investments in affordable housing projects for the primary purpose of available tax benefits. They are accounted for using the cost method of accounting. The excess of the carrying amount of the investment over its estimated residual value is amortized during the periods in which associated tax credits are allocated to the investor. The annual amortization of the investment is based on the proportion of tax credits received in the current year to total estimated tax credits to be allocated to the Company. These investments are reviewed for impairment when events indicate their carrying amounts may not be recoverable from future undiscounted cash flows. If impaired, the investments are reported at discounted amounts.

***Premises and Equipment***

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed over asset useful lives on the straight-line basis. The useful lives for buildings and leasehold improvements range from 10 to 40 years. The useful lives for furniture, fixtures and equipment range from 3 to 10 years.

***Federal Home Loan Bank Stock***

Federal Home Loan Bank stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

***Company (or Bank) Owned Life Insurance***

The Company has purchased life insurance policies on certain key executives. Company-owned life insurance is recorded at its cash surrender value, or the amount that can be realized.

***Goodwill and Other Tangible Assets***

Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified.

Other intangible assets consist of acquired customer relationship intangible assets arising from business acquisitions. They are initially measured at fair value and then are amortized on an accelerated method over the estimated useful lives of eight years. Such assets are periodically evaluated as to the recoverability of their carrying value.

**Northeast Indiana Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010 and 2009**

***Mortgage-Servicing Rights***

Mortgage-servicing rights on originated loans that have been sold are initially recorded at fair value. Amortized mortgage-servicing rights include commercial and mortgage loan servicing rights. Under the amortization method, servicing rights are amortized in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment or increased obligation based on fair value at each reporting date.

Each class of separately recognized servicing assets subsequently measured using the amortization method are evaluated and measured for impairment. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the carrying amount of the servicing assets for that tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment after the initial measurement of impairment. Fair value in excess of the carrying amount of servicing assets for that stratum is not recognized.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage-servicing rights is netted against loan servicing fee income.

***Securities Sold Under Repurchase Agreements***

Substantially all securities sold under repurchase agreements represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance.

***Treasury Stock***

Treasury stock is stated at cost. Cost is determined by the first-in, first-out (FIFO) method.

***Stock Options***

At December 31, 2010 and 2009, the Company has a share-based employer compensation plan, which is more fully described in Note 15.

**Northeast Indiana Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010 and 2009**

***Income Taxes***

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

The Company's tax years still subject to examination by authorities are years subsequent to 2007.

***Earnings Per Common Share***

Basic earnings per common share is net income divided by the weighted-average number of common shares outstanding during the period. ESOP and Recognition and Retention Plan (RRP) shares are considered outstanding for this calculation unless unearned. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options and RRP plans.

***Comprehensive Income***

Comprehensive income consists of net income and other comprehensive income or loss. Other comprehensive income or loss includes unrealized gains and losses on securities available for sale, net of tax, which are also recognized as separate components of shareholders' equity.

***Dividend Restriction***

Banking regulations require maintaining certain capital levels and may limit the dividends paid by First Federal to Northeast Indiana Bancorp or by Northeast Indiana Bancorp to shareholders.

***Restriction on Cash and Due From Banks***

The Bank considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2010 and 2009, cash equivalents consisted primarily of deposit accounts with financial institutions.

**Northeast Indiana Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010 and 2009**

The Bank is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2010 was \$2,776,000.

One or more of the financial institutions holding the Company's cash accounts are participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2010, all noninterest-bearing transactions are fully guaranteed by the FDIC for the entire amount in the account. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

Effective July 21, 2010, the FDIC permanently increased the insurance limits to \$250,000. At December 31, 2010, the Company's cash accounts exceeded federally insured limits by approximately \$9,400,000, all of which was held by either the Federal Reserve Bank or Federal Home Loan Bank of Indianapolis.

**Note 2: Securities**

The fair value of available-for-sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows:

	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
<b>Available-for-Sale Securities:</b>			
December 31, 2010:			
U.S. Government agencies	\$ 6,498,880	\$ 137,823	\$ (540)
U.S. Government agency-sponsored mortgage-backed securities	22,830,499	388,770	(160,078)
State and political subdivision	12,814,413	116,310	(289,822)
Equity securities	40,800	16,800	-
	<u>\$ 42,184,592</u>	<u>\$ 659,703</u>	<u>\$ (450,440)</u>
December 31, 2009:			
U.S. Government agencies	\$ 7,542,092	\$ 272,058	\$ -
Mutual funds	2,346,484	-	(340,722)
U.S. Government agency-sponsored mortgage-backed securities	10,955,558	519,651	(46)
State and political subdivisions	7,416,964	152,425	(8,513)
Equity securities	60,000	36,000	-
	<u>\$ 28,321,098</u>	<u>\$ 980,134</u>	<u>\$ (349,281)</u>

**Northeast Indiana Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010 and 2009**

There were securities held to maturity at December 31, 2010 and 2009 with an amortized cost of \$400,000 and \$550,000, respectively, and a fair value of \$407,097 and \$558,649, respectively.

The amortized cost and fair value of available-for-sale securities at December 31, 2010, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<b>Available-for-Sale</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>
Within one year	\$ 3,544,800	\$ 3,634,233
One to five years	4,625,962	4,754,946
Five to ten years	5,211,750	5,202,631
After ten years	5,967,010	5,721,483
	19,349,522	19,313,293
Mortgage-backed securities	22,601,807	22,830,499
Equity securities	24,000	40,800
Totals	\$ 41,975,329	\$ 42,184,592

  

	<b>Held-to-Maturity</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>
Due in one year or less	\$ 160,000	\$ 160,274
One to five years	240,000	246,823
Totals	\$ 400,000	\$ 407,097

Sales of securities available for sale were as follows:

	<b>2010</b>	<b>2009</b>
Proceeds	\$ 7,417,999	\$ 2,616,944
Gross gains	131,150	49,626
Gross losses	(302,620)	(283,861)

Securities pledged at December 31, 2010 and 2009 had a carrying value of \$15,360,631 and \$17,123,636, and were pledged to secure securities sold under repurchase agreements and Federal Home Loan Bank advances.

Certain investments in debt and marketable equity securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2010 and 2009 was approximately \$18,797,000 and \$3,378,000, which is approximately 44% and 12% of the Company's investment portfolio.

**Northeast Indiana Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010 and 2009**

The following table shows our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2010:

Description of Securities	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies	\$ 999,460	\$ (540)	\$ -	\$ -	\$ 999,460	\$ (540)
U.S. Government agency-sponsored mortgage-backed securities	11,158,974	(160,078)	-	-	11,158,974	(160,078)
State and political subdivisions	6,638,184	(289,822)	-	-	6,638,184	(289,822)
Total temporarily impaired securities	<u>\$ 18,796,618</u>	<u>\$ (450,440)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,796,618</u>	<u>\$ (450,440)</u>

The following table shows our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2009:

Description of Securities	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual funds	\$ -	\$ -	\$ 2,346,484	\$ (340,722)	\$ 2,346,484	\$ (340,722)
U.S. Government agency-sponsored mortgage-backed securities	61,658	(46)	-	-	61,658	(46)
State and political subdivisions	970,093	(8,513)	-	-	970,093	(8,513)
Total temporarily impaired securities	<u>\$ 1,031,751</u>	<u>\$ (8,559)</u>	<u>\$ 2,346,484</u>	<u>\$ (340,722)</u>	<u>\$ 3,378,235</u>	<u>\$ (349,281)</u>

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***Mortgage-Backed Securities***

The unrealized losses on the Company's investment in residential mortgage-backed securities were caused by interest rate increases. The Company expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2010.

***State and Political Subdivisions***

The unrealized losses on the Company's investments in securities of state and political subdivisions were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2010.

***Mutual Funds***

The mutual fund that was held as of December 31, 2009 consisted of units in an adjustable rate mortgage (ARM) fund. The fund has a portion of its assets invested in private label mortgage-backed securities (MBS). The fund's net asset value (NAV) came under intense pressure during the volatility and dislocations that unfolded in the capital markets during 2008. Several of the fund's private label MBS were downgraded during this time.

The fund's NAV improved slightly during 2010 and the fund managers elected to restructure the fund during the quarter ended September 30, 2010 to sell all remaining private label MBS. After the restructure of the fund, the fund managers elected to remove the redemption-in-kind provision which opened the fund back up to new investors as well as unlimited cash withdrawals for existing investors. Management elected a complete redemption of the Company's investment in the fund during the quarter ended December 31, 2010. The bank has no further exposure to the fund at December 31, 2010.

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**Note 3: Loans Receivable, Net**

Categories of loans at December 31, include:

	<u>2010</u>	<u>2009</u>
Residential mortgage	\$ 67,302,112	\$ 72,797,684
Commerical mortgage	57,717,597	57,311,465
Construction and land development		
Construction - residential	607,790	1,903,835
Construction - nonresidential	322,500	-
Land and land development	9,093,300	10,075,632
Commercial and industrial	29,984,678	30,263,847
Consumer		
Automobile	11,005,607	11,729,453
Home equity and second mortgage	8,590,472	8,905,167
Other	2,330,772	2,050,769
Total loans	<u>186,954,828</u>	<u>195,037,852</u>
Less		
Loans in process	(304,514)	(47,176)
Undisbursed portion of construction loans	(325,181)	(609,864)
Net deferred loan origination fees	(183,903)	(245,126)
Allowance for loan losses	<u>(3,227,844)</u>	<u>(2,868,468)</u>
Net loans	<u>\$ 182,913,386</u>	<u>\$ 191,267,218</u>

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**Note 4: Allowance for Loan Losses**

The following table presents the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2010:

	Residential Mortgage	Commercial Mortgage	Construction and Land Development	Commercial and Industrial	Consumer	Total
<b>Allowance for loan losses:</b>						
Balance, January 1	\$ 245,330	\$ 1,540,378	\$ 391,645	\$ 576,781	\$ 114,334	\$ 2,868,468
Provision charged to expense	310,301	166,579	361,679	857,428	4,013	1,700,000
Charge-offs	(322,151)	(302,368)	-	(890,409)	(56,313)	(1,571,241)
Recoveries	67,450	455	-	108,095	54,617	230,617
Balance, December 31	<u>\$ 300,930</u>	<u>\$ 1,405,044</u>	<u>\$ 753,324</u>	<u>\$ 651,895</u>	<u>\$ 116,651</u>	<u>\$ 3,227,844</u>
Individually evaluated for impairment	\$ -	\$ 561,000	\$ 730,000	\$ 185,000	\$ -	\$ 1,476,000
Collectively evaluated for impairment	<u>300,930</u>	<u>844,044</u>	<u>23,324</u>	<u>466,895</u>	<u>116,651</u>	<u>1,751,844</u>
Balance, December 31	<u>\$ 300,930</u>	<u>\$ 1,405,044</u>	<u>\$ 753,324</u>	<u>\$ 651,895</u>	<u>\$ 116,651</u>	<u>\$ 3,227,844</u>
<b>Ending balance:</b>						
Individually evaluated for impairment	\$ 1,535,248	\$ 3,688,252	\$ 5,036,197	\$ 1,281,297	\$ -	\$ 11,540,994
Collectively evaluated for impairment	<u>65,766,864</u>	<u>54,029,345</u>	<u>4,987,393</u>	<u>28,703,381</u>	<u>21,926,851</u>	<u>175,413,834</u>
Ending balance: December 31	<u>\$ 67,302,112</u>	<u>\$ 57,717,597</u>	<u>\$ 10,023,590</u>	<u>\$ 29,984,678</u>	<u>\$ 21,926,851</u>	<u>\$ 186,954,828</u>

We rate all loans by credit quality using the following designations:

**Grade 1 - Excellent**

Loans secured by liquid collateral, such as certificates of deposit, reputable bank letters of credit, or other cash equivalents; loans that are guaranteed or otherwise backed by the full faith and credit of the United States government or an agency thereof, such as the Small Business Administration; or loans to any publicly held company with a current long-term debt rating of A or better.

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***Grade 2 - Good***

Loans to businesses that have strong financial statements containing an unqualified opinion from a CPA firm and at least three consecutive years of profits; loans supported by unaudited financial statements containing strong balance sheets, five consecutive years of profits, a five-year satisfactory relationship with the Bank, and key balance sheet and income statement trends that are either stable or positive; loans secured by publicly traded marketable securities where there is no impediment to liquidation; loans to individuals backed by liquid personal assets, established credit history, and unquestionable character; or loans to publicly held companies with current long-term debt ratings of Baa or better.

***Grade 3 - Satisfactory***

Loans supported by financial statements (audited or unaudited) that indicate average or slightly below average risk and having some deficiency or vulnerability to changing economic conditions; loans with some weakness but offsetting features of other support are readily available; loans that are meeting the terms of repayment, but which may be susceptible to deterioration if adverse factors are encountered.

Loans may be graded Satisfactory when there is no recent information on which to base a current risk evaluation and the following conditions apply:

- At inception, the loan was properly underwritten, did not possess an unwarranted level of credit risk, and the loan met the above criteria for a risk grade of Excellent, Good or Satisfactory.
- At inception, the loan was secured with collateral possessing a loan value adequate to protect the Bank from loss.
- The loan has exhibited two or more years of satisfactory repayment with a reasonable reduction of the principal balance.
- During the period that the loan has been outstanding, there has been no evidence of any credit weakness. Some examples of weakness include slow payment, lack of cooperation by the borrower, breach of loan covenants, or the borrower is in an industry known to be experiencing problems. If any of these credit weaknesses is observed, a lower risk grade may be warranted.

***Grade 4 - Satisfactory/Monitored***

Loans in this category are considered to be of acceptable credit quality, but contain greater credit risk than Satisfactory loans due to weak balance sheets, marginal earnings or cash flow, or other uncertainties. These loans warrant a higher than average level of monitoring to ensure that weaknesses do not advance. The level of risk in a Satisfactory/Monitored loan is within acceptable underwriting guidelines so long as the loan is given the proper level of management supervision.

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***Grade 5 - Special Mention***

Loans, which possess some credit deficiency, or potential weakness, which deserves close attention. Such loans pose an unwarranted financial risk that, if not corrected, could weaken the loan by adversely impacting the future repayment ability of the borrower. The key distinctions of a Special Mention classification are that (1) it is indicative of an unwarranted level of risk and (2) weaknesses are considered “potential,” not “defined,” impairments to the primary source of repayment.

***Grade 6 - Substandard***

One or more of the following characteristics may be exhibited in loans classified Substandard:

- Loans, which possess a defined, credit weakness. The likelihood that a loan will be paid from the primary source of repayment is uncertain. Financial deterioration is under way and very close attention is warranted to ensure that the loan is collected without loss.
- Loans are inadequately protected by the current net worth and paying capacity of the obligor.
- The primary source of repayment is gone, and the Bank is forced to rely on a secondary source of repayment, such as collateral liquidation or guarantees.
- Loans have a distinct possibility that the Bank will sustain some loss if deficiencies are not corrected.
- Unusual courses of action are needed to maintain a high probability of repayment.
- The borrower is not generating enough cash flow to repay loan principal; however, it continues to make interest payments.
- The lender is forced into a subordinated or unsecured position due to flaws in documentation.
- Loans have been restructured so that payment schedules, terms, and collateral represent concessions to the borrower when compared to the normal loan terms.
- The lender is seriously contemplating foreclosure or legal action due to the apparent deterioration in the loan.
- There is a significant deterioration in market conditions to which the borrower is highly vulnerable.

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**Grade 7 - Doubtful**

One or more of the following characteristics may be present in loans classified Doubtful:

- Loans have all of the weaknesses of those classified as Substandard. However, based on existing conditions, these weaknesses make full collection of principal highly improbable.
- The primary source of repayment is gone, and there is considerable doubt as to the quality of the secondary source of repayment.
- The possibility of loss is high but because of certain important pending factors, which may strengthen the loan, loss classification is deferred until the exact status of repayment is known.

**Grade 8 - Loss**

Loans are considered uncollectible and of such little value that continuing to carry them as assets is not feasible. Loans will be classified Loss when it is neither practical nor desirable to defer writing off or reserving all or a portion of a basically worthless asset, even though partial recovery may be possible at some time in the future.

The following tables present the credit risk profile of the Company's loan portfolio based on rating category and payment activity as of December 31, 2010:

	<b>Commercial Mortgage</b>	<b>Construction and Land Development</b>	<b>Commercial and Industrial</b>	<b>Total</b>
1-4 - Pass	\$ 52,355,990	\$ 4,416,921	\$ 21,987,486	\$ 78,760,397
5 - Special Mention	1,719,237	570,472	6,279,377	8,569,086
6 - Substandard	2,509,597	4,938,407	1,498,667	8,946,671
7 - Doubtful	1,132,773	97,790	219,148	1,449,711
8 - Loss	-	-	-	-
	<u>\$ 57,717,597</u>	<u>\$ 10,023,590</u>	<u>\$ 29,984,678</u>	<u>\$ 97,725,865</u>

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	<u>Residential Mortgage</u>	<u>Consumer</u>	<u>Total</u>
Performing	\$ 63,712,779	\$ 21,101,527	\$ 84,814,306
Delinquent less than 90 days	1,978,752	565,113	2,543,865
Nonperforming	<u>1,610,581</u>	<u>260,211</u>	<u>1,870,792</u>
	<u>\$ 67,302,112</u>	<u>\$ 21,926,851</u>	<u>\$ 89,228,963</u>
Subtotal			\$ 186,954,828
Deferred loan fees and costs, overdrafts, in-process accounts			<u>(813,598)</u>
Total portfolio loans			<u>\$ 186,141,230</u>

The following table presents the Company's loan portfolio aging analysis as of December 31, 2010:

	<u>Delinquent Loans</u>			<u>Current</u>	<u>Total Portfolio Loans</u>	<u>Nonaccrual Loans</u>	<u>Total Loans &gt; 90 Days Accruing</u>
	<u>30-89 Days Past Due</u>	<u>90 Days and Over</u>	<u>Total Past Due</u>				
Residential mortgage	\$ 1,978,752	\$ 1,610,581	\$ 3,589,333	\$ 62,102,198	\$ 67,302,112	\$ 1,610,581	\$ -
Commercial mortgage	2,620,078	964,508	3,584,586	53,168,503	57,717,597	964,508	-
Construction and land development	12,272	3,337,916	3,350,188	3,335,486	10,023,590	3,337,916	-
Commercial and industrial	251,456	1,101,853	1,353,309	27,529,516	29,984,678	1,101,853	-
Consumer	<u>565,113</u>	<u>260,211</u>	<u>825,324</u>	<u>20,841,316</u>	<u>21,926,851</u>	<u>260,211</u>	<u>-</u>
Subtotal	<u>\$ 5,427,671</u>	<u>\$ 7,275,069</u>	<u>\$ 12,702,740</u>	<u>\$ 166,977,019</u>	186,954,828	<u>\$ 7,275,069</u>	<u>\$ -</u>
Deferred loan fees and costs, overdrafts, in-process accounts					<u>(813,598)</u>		
Total portfolio loans					<u>\$ 186,141,230</u>		

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A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

The following table presents impaired loans for the years ended December 31, 2010:

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance					
Residential mortgage	\$ 1,535,248	\$ 1,535,248	\$ -	\$ 1,546,722	\$ 61,971
Commercial mortgage	2,361,091	2,361,091	-	2,529,758	76,618
Construction and land development	1,075,350	1,075,350	-	635,924	23,658
Commercial and industrial	12,249	12,249	-	226,512	5,373
	<u>\$ 4,983,938</u>	<u>\$ 4,983,938</u>	<u>\$ -</u>	<u>\$ 4,938,916</u>	<u>\$ 167,620</u>
Loans with a specific valuation allowance					
Residential mortgage	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial mortgage	1,465,589	1,465,589	561,000	1,264,316	17,204
Construction and land development	3,960,847	3,960,847	730,000	2,858,552	78,576
Commercial and industrial	1,441,555	1,441,555	185,000	120,130	-
	<u>\$ 6,867,991</u>	<u>\$ 6,867,991</u>	<u>\$ 1,476,000</u>	<u>\$ 4,242,998</u>	<u>\$ 95,780</u>
Total impaired loans					
Residential mortgage	\$ 1,535,248	\$ 1,535,248	\$ -	\$ 1,546,722	\$ 61,971
Commercial mortgage	3,826,680	3,826,680	561,000	3,794,074	93,822
Construction and land development	5,036,197	5,036,197	730,000	3,494,476	102,234
Commercial and industrial	1,453,804	1,453,804	185,000	346,642	5,373
	<u>\$ 11,851,929</u>	<u>\$ 11,851,929</u>	<u>\$ 1,476,000</u>	<u>\$ 9,181,914</u>	<u>\$ 263,400</u>

Included in certain loan categories in the impaired loans are troubled debt restructurings that were classified as impaired. At December 31, 2010, the Company had \$1,414,000 of commercial and commercial real estate loans that were modified in troubled debt restructurings and impaired.

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The following tables present the allowance for loan loss activity, impaired loans and nonaccrual loans for 2009.

Activity in the allowance for loan losses was as follows:

	<b>2009</b>
Balance, beginning of year	\$ 1,750,605
Provision charged to expense	1,400,000
Charge-offs	(461,680)
Recoveries	179,543
	\$ 2,868,468

Impaired loans were as follows:

	<b>2009</b>
Loans with no allocated allowance for loan losses	\$ -
Loans with allocated allowance for loan losses	7,599,727
	\$ 7,599,727

	<b>2009</b>
Amount of the allowance for loan losses allocated	\$ 1,307,539
Average of impaired loans during the year	5,559,163
Interest income recognized during impairment	251,859
Cash-basis interest income recognized	251,857

Nonperforming loans were as follows:

	<b>2009</b>
Nonaccrual loans	\$ 2,827,204

Nonperforming loans and impaired loans are defined differently. Some loans may be included in both categories, whereas other loans may only be included in one category.

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**Note 5: Secondary Mortgage Marketing Activities**

Activity for capitalized mortgage-servicing rights was as follows:

	<b>2010</b>	<b>2009</b>
Servicing rights		
Carrying amount, beginning of year	\$ 379,211	\$ 235,048
Assumptions of servicing obligations	171,189	217,268
Amortized to expense	<u>(120,905)</u>	<u>(73,105)</u>
Carrying amount, end of year	<u>\$ 429,495</u>	<u>\$ 379,211</u>

At December 31, 2010 and 2009, the estimated fair value of mortgage-servicing rights exceeded the carrying value. Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of loans serviced for others totaled \$53,743,000 and \$44,978,000 at December 31, 2010 and 2009, respectively.

**Note 6: Premises and Equipment, Net**

Premises and equipment were as follows:

	<b>2010</b>	<b>2009</b>
Land	\$ 458,331	\$ 458,331
Automobiles	46,676	46,676
Buildings and leasehold improvements	3,043,965	2,493,004
Furniture, fixtures and equipment	<u>2,338,422</u>	<u>2,313,640</u>
	5,887,394	5,311,651
Less accumulated depreciation	<u>(3,333,224)</u>	<u>(3,153,245)</u>
Net premises and equipment	<u>\$ 2,554,170</u>	<u>\$ 2,158,406</u>

Depreciation expense was approximately \$242,000 and \$239,000 for 2010 and 2009, respectively.

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**Note 7: Goodwill and Intangible Assets**

***Goodwill***

The changes in the carrying amount of goodwill for the years ended December 31 were:

	<u>2010</u>	<u>2009</u>
Balance as of January 1	\$ 130,972	\$ 130,972
Acquired goodwill	<u>-</u>	<u>-</u>
Balance as of December 31	<u>\$ 130,972</u>	<u>\$ 130,972</u>

***Acquired Intangible Assets***

Acquired intangible assets at December 31 were:

	<u>2010</u>		<u>2009</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Amortized intangible assets				
Customer relationship intangibles	<u>\$ 199,728</u>	<u>\$ 162,318</u>	<u>\$ 199,728</u>	<u>\$ 137,346</u>

Aggregate amortization expense was approximately \$25,000 for 2010 and 2009.

**Note 8: Deposits**

Time deposits of \$100,000 or more were \$33,834,000 and \$45,201,000 at December 31, 2010 and 2009. Scheduled maturities of time deposits for the next five years were as follows:

2011	\$ 34,280,888
2012	19,151,948
2013	9,273,029
2014	1,075,502
2015	<u>1,250,216</u>
	<u>\$ 65,031,583</u>

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**Note 9: Borrowed Funds**

Borrowed funds included the following at December 31:

	<b>2010</b>	<b>2009</b>
Federal Home Loan Bank (FHLB) advances	\$ 38,500,000	\$ 55,500,000
Securities sold under repurchase agreements	14,354,841	16,861,499
Note payable	633,966	702,729
Secured borrowing	77,166	-
	<u>\$ 53,565,973</u>	<u>\$ 73,064,228</u>

Securities sold under agreements to repurchase are secured by government agency and mortgage-backed securities with a carrying amount of \$9,906,000 and \$17,124,000 for the years ended December 31, 2010 and 2009, respectively.

Securities sold under agreements to repurchase are financing arrangements that mature within one day. At maturity, the securities underlying the agreements are returned to the Company.

Information concerning securities sold under agreements to repurchase is summarized as follows:

	<b>2010</b>	<b>2009</b>
Average daily balance during the year	\$ 9,197,583	\$ 6,875,958
Average interest rate during the year	0.14%	0.15%
Maximum month-end balance during the year	14,354,841	16,861,499
Weighted-average interest rate during the year	0.14%	0.15%

**FHLB Advances**

FHLB advances have fixed and variable interest rates ranging from 1.26% to 4.82%. Scheduled maturities and the weighted-average interest rates by maturity for the years ended December 31, were as follows:

	<b>2010</b>		<b>2009</b>	
	<b>Amount</b>	<b>Weighted-Average Interest Rate</b>	<b>Amount</b>	<b>Weighted-Average Interest Rate</b>
2010	\$ -		\$ 22,000,000	4.68%
2011	15,000,000	3.85%	15,000,000	3.85%
2012	13,500,000	1.69%	13,500,000	1.69%
2013	4,000,000	2.51%	4,000,000	2.51%
2014	3,000,000	2.40%	1,000,000	3.00%
Thereafter	3,000,000	2.28%	-	
	<u>\$ 38,500,000</u>	2.72%	<u>\$ 55,500,000</u>	3.54%

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FHLB advances are secured by FHLB stock, eligible mortgage loans and specifically pledged securities. At December 31, 2010 and 2009, in addition to FHLB stock, collateral of approximately \$77,696,000 and \$88,921,000, respectively, was pledged to the FHLB to secure advances outstanding.

In addition, \$4,000,000 of the advances outstanding at December 31, 2010 contained an option with a final maturity date of May 10, 2011, whereby the interest rate may be adjusted by the FHLB, at which time the advance may be repaid at the option of First Federal without penalty.

***Debt***

On May 8, 2008, the Company entered into a ten-year, \$800,150 note payable to The Citizens National Bank of Paris for the sole purpose of repurchasing 78,747 shares of Northeast Indiana Bancorp, Inc. stock. Terms of the agreement include twenty semi-annual payments of principal and interest at the prime rate as published in the Wall Street Journal. The following includes the payment schedule for the remainder of the note:

2011	\$ 72,631
2012	75,865
2013	79,388
2014	83,001
2015	86,778
Thereafter	<u>236,303</u>
	<u>\$ 633,966</u>

**Note 10: Employee Benefits**

***Employee Pension Plan***

First Federal is part of a noncontributory multi-employer defined-benefit pension plan covering substantially all employees. The trustees of the Financial Institutions Retirement Fund administer the plan. There is no separate actuarial valuation of plan benefits nor segregation of plan assets specifically for First Federal because the plan is a multi-employer plan and separate actuarial valuations are not made with respect to each employer nor are the plan assets so segregated. Expense for 2010 and 2009 was approximately \$70,000 and \$41,000, respectively. The Board of Directors elected to freeze the pension plan accruals as of the plan year ended June 30, 2006. As a result of this move, all future accruals have been frozen for existing participating employees and no new employees will be admitted to the pension plan.

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**401(k) Plan**

Northeast Indiana Bancorp has a 401(k) plan for all employees who have completed one year of service (1,000 hours) and attained a minimum age of 21 years. Participants may make deferrals up to 75% of compensation. Northeast Indiana Bancorp matches 50% of elective deferrals on the first 6% of the participant's compensation. Expense for 2010 and 2009 was approximately \$64,000 and \$61,000, respectively.

**Supplemental Retirement Plans**

First Federal has a supplemental retirement plan for the Chairman of the Board of Directors and a deferred compensation plan for certain directors of First Federal. First Federal is recording an expense equal to the change in the present value of the payment due at retirement based on the projected remaining years of service using the projected unit credit method. The balance of the plans was approximately \$1,339,000 and \$1,207,000 at December 31, 2010 and 2009, respectively. Expense related to the plans was approximately \$158,000 and \$96,000 for 2010 and 2009, respectively.

First Federal has purchased insurance on the lives of the participants in the supplemental retirement plan and the deferred compensation plan with First Federal as beneficiary. In addition, life insurance was purchased on a pool of officers both during 2003 and 2004 with First Federal as beneficiary. The cash surrender value of the life insurance was approximately \$6,765,000 and \$6,514,000 at December 31, 2010 and 2009, respectively. The income derived from the investment in life insurance included in other income was approximately \$251,000 and \$261,000 for 2010 and 2009, respectively.

**Employee Stock Ownership Plan (ESOP)**

An ESOP exists for the benefit of substantially all employees. Contributions to the ESOP are made by Northeast Indiana Bancorp and are determined by the Board of Directors at their discretion. The contributions may be made in the form of cash or common stock. The annual contributions may not be greater than the amount deductible for federal income tax purposes and cannot cause Northeast Indiana Bancorp to violate regulatory capital requirements.

There were no cash contributions or expense associated with the ESOP plan as of December 31, 2010 and 2009. At December 31, 2010, the fair value of the 149,668 allocated shares held by the ESOP was \$1,946,000. The fair value of the 147,704 allocated shares held by the ESOP at December 31, 2009 was \$1,514,000.

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**Recognition and Retention Plan (RRP)**

The RRP provides for issue of shares to directors, officers and employees. The maximum total shares available under the RRP is 105,620. The shares awarded will vest 20% per year over a period of five years. There were 9,276 new RRP grants awarded in 2010 while there were no new RRP grants awarded in 2009. The expense associated with the RRP was approximately \$32,000 and \$20,000 in 2010 and 2009, respectively.

	<b>2010</b>	<b>Weighted-Average Grant-Date Fair Value</b>
	<b>Shares</b>	<b>Fair Value</b>
Nonvested, beginning of year	1,900	\$ 17.68
Awarded	9,276	9.90
Vested	(1,050)	18.11
Nonvested, end of year	10,126	\$ 10.51

Unearned compensation at December 31, 2010 and 2009 related to the RRP shares is \$106,000 and \$34,000, respectively, will be recognized over a weighted-average period of four years.

**Note 11: Income Taxes**

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. With a few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2007. The provision for income taxes includes these components:

	<b>2010</b>	<b>2009</b>
Federal		
Current	\$ 682,537	\$ 493,255
Deferred	92,961	216,570
State		
Current	62,754	124,904
Deferred	(47,267)	37,431
Income tax expense	\$ 790,985	\$ 872,160

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Effective tax rates differ from federal statutory rates applied to financial statement income due to the following:

	<u>2010</u>	<u>2009</u>
Federal statutory rate of 34% times financial statement income before income taxes	\$ 951,090	\$ 935,040
Tax effect of		
State tax, net of federal income tax effect	10,221	107,141
Low income housing credit	(88,716)	(130,478)
Tax-exempt income	(117,281)	(55,693)
Tax effect of nondeductible capital loss	101,938	96,513
Other, net	<u>(66,267)</u>	<u>(80,363)</u>
Income tax expense	<u>\$ 790,985</u>	<u>\$ 872,160</u>

The components of the net deferred tax assets included in other assets on the consolidated balance sheets were:

	<u>2010</u>	<u>2009</u>
Deferred tax assets		
Deferred compensation	\$ 570,219	\$ 504,977
Bad debts	736,846	652,114
Deferred loan fees	77,352	101,883
Interest on nonaccrual loans	35,818	24,351
Low income housing credit carryforwards	744,849	955,659
Other	<u>131,253</u>	<u>92,311</u>
	<u>2,296,337</u>	<u>2,331,295</u>
Deferred tax liabilities		
Unrealized gains on available-for-sale securities	(84,272)	(377,491)
Depreciation	(150,820)	(150,004)
Prepays	(111,991)	(98,985)
FHLB stock dividends	(178,668)	(193,460)
Pension and employee benefits	<u>(21,117)</u>	<u>(9,411)</u>
	<u>(546,868)</u>	<u>(829,351)</u>
Net deferred tax asset	<u>\$ 1,749,469</u>	<u>\$ 1,501,944</u>

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Retained earnings at December 31, 2010 and 2009 include approximately \$1,300,000 for which no deferred federal income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses or adjustments arising from carryback of net operating losses would create income for tax purposes only, which would be subject to the then-current corporate income tax rate. The unrecorded deferred income tax liability on the above amount was approximately \$442,000 at December 31, 2010 and 2009, respectively. The Company's low income housing credits carryover will begin to expire if unused in 2023.

**Note 12: Comprehensive Income**

The components of accumulated other comprehensive income, included in the consolidated statements of shareholders' equity, are related to unrealized gains in the available-for-sale investment portfolio. Net unrealized gains as of December 31, 2010 and 2009 were \$209,000 and \$631,000 with related deferred income taxes of \$84,000 and \$377,000, respectively.

**Note 13: Regulatory Matters**

First Federal is subject to regulatory capital requirements administered by federal regulatory agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities and certain off-balance-sheet items calculated under regulatory accounting practices.

Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings, and other factors, and the regulators can lower classifications in certain cases. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the financial statements.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If only adequately capitalized, regulatory approval is required to accept brokered deposits. If under-capitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required.

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At December 31, actual First Federal capital levels (in millions) and minimum required levels were:

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2010						
Total capital						
(to risk-weighted assets)	\$ 25.0	14.3%	\$ 14.0	8.0%	\$ 17.5	10.0%
Tier I (core) capital						
(to risk-weighted assets)	23.3	13.3%	7.0	4.0%	10.5	6.0%
Tier I (core) capital						
(to adjusted total assets)	23.3	9.1%	10.2	4.0%	12.8	5.0%
Tier I (core) capital						
(to average assets)	23.3	9.1%	10.2	4.0%	12.9	5.0%
As of December 31, 2009						
Total capital						
(to risk-weighted assets)	\$ 23.7	13.2%	\$ 14.4	8.0%	\$ 18.0	10.0%
Tier I (core) capital						
(to risk-weighted assets)	22.1	12.3%	7.2	4.0%	10.8	6.0%
Tier I (core) capital						
(to adjusted total assets)	22.1	8.8%	10.1	4.0%	12.6	5.0%
Tier I (core) capital						
(to average assets)	22.1	8.8%	10.1	4.0%	12.6	5.0%

First Federal was categorized as well capitalized at December 31, 2010 and 2009. There are no conditions or events since that notification that management believes have changed First Federal's category.

Regulations of the Office of Thrift Supervision limit the amount of dividends and other capital distributions that may be paid by savings institutions without prior approval of the Office of Thrift Supervision. The regulatory restriction is based on a three-tiered system with the greatest flexibility being afforded to well-capitalized (Tier 1) institutions. First Federal is currently a Tier 1 institution. Accordingly, First Federal can make, without prior regulatory approval, distributions during a calendar year up to 100% of its retained net income for the calendar year-to-date plus retained net income for the previous two calendar years as long as First Federal would remain well-capitalized, as defined by the Office of Thrift Supervision prompt corrective action regulations, following the proposed distribution. At December 31, 2010, the Bank had no retained earnings available for distribution without regulatory approval.

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**Note 14: Commitments and Contingencies and Financial Instruments With Off-Balance-Sheet Risk**

Some financial instruments, such as loan commitments, credit lines, letters of credit and overdraft protection, are issued to meet customer financing needs. These agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

Financial instruments with off-balance-sheet risk were as follows:

	<u>2010</u>	<u>2009</u>
Fixed rate commitments	\$ 1,675,931	\$ 687,847
Variable rate commitments	21,640,422	20,774,221
Letter of credit	2,873,101	2,598,101

Most loan commitments have terms up to 60 days. At December 31, 2010, fixed commitments have contractual interest rates ranging from 3.75% to 5.50%. Most variable rate arrangements are tied either to the national monthly median cost of funds, prime rate or the U.S. Treasury bill rate and have spreads between 5.25% and 5.875%.

Certain executives of the Bank have employment contracts, which are based upon changes of control. The employment contracts provide for the payment of one to three years worth of the officers' salaries upon a change of control.

**Note 15: Stock Options**

Options to buy stock have been granted to directors, officers and employees under two different stock option and incentive plans. Exercise price is the market price at date of grant. The maximum option term is ten years and options vest over five years under both plans. The Board of Directors passed a special resolution during 2005 immediately vesting all nonvested outstanding shares granted from the 2002 Omnibus Incentive Plan making 9,500 options immediately exercisable.

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The Company had almost awarded all stock options under the original stock option plan by the year ended 2001. As such, the 2002 Omnibus Incentive Plan was added to the Company's proxy statement and approved by the shareholders at the May 1, 2002 Northeast Indiana Bancorp, Inc. Annual Meeting. There were 158,753 new stock options approved under the new plan. At December 31, 2010 and 2009, there were 151,104 shares authorized for future grants.

A summary of option activity under the Plan as of December 31, 2010, and changes during the year then ended, is presented below:

	<b>2010</b>	<b>Weighted- Average Remaining Contractual Term</b>
	<b>Shares</b>	<b>Weighted- Average Exercise Price</b>
Outstanding and exercisable, beginning of year	<u>15,500</u>	<u>\$ 18.18</u>
Outstanding and exercisable, end of year	<u>15,500</u>	<u>3.22</u>
		<u>2.22</u>

**Note 16: Related Party Transactions**

Certain directors and officers of First Federal are loan customers. In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectibility or present other unfavorable features. A summary of related party loan activity for loans aggregating \$60,000 or more to any one related party is as follows:

	<b>2010</b>	<b>2009</b>
Balance as of January 1	\$ 3,226,634	\$ 2,866,769
New loans	1,617,264	2,208,391
Repayments	<u>(719,542)</u>	<u>(1,848,526)</u>
Balance as of December 31	<u>\$ 4,124,356</u>	<u>\$ 3,226,634</u>

Related party deposits were approximately \$600,000 and \$512,000 at December 31, 2010 and 2009, respectively.

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**Note 17: Earnings Per Common Share**

A reconciliation of the numerators and denominators of the basic earnings per common share and diluted earnings per common share computations for the years ended December 31, is presented below:

	<u>2010</u>	<u>2009</u>
Basic earnings per common share		
Net income available to common shareholders	\$ 2,012,298	\$ 1,877,958
Weighted-average common shares outstanding before adjustment	1,239,509	1,230,139
Less: non-vested RRP shares	<u>(10,126)</u>	<u>(1,900)</u>
Weighted-average common shares outstanding for basis earnings per common shares	<u>1,229,383</u>	<u>1,228,239</u>
Basic earnings per common share	<u>\$ 1.64</u>	<u>\$ 1.53</u>
Diluted earnings per common share		
Net income available to common shareholders, per above	\$ 2,012,298	\$ 1,877,958
Weighted-average common shares outstanding	1,229,383	1,228,239
Add: dilutive effects of assumed conversions and exercises of stock options and RRP shares	<u>512</u>	<u>540</u>
Weighted-average common and dilutive shares outstanding for dilutive earnings per common shares	<u>1,229,895</u>	<u>1,228,779</u>
Diluted earnings per common share	<u>\$ 1.64</u>	<u>\$ 1.53</u>

Stock options for 15,500 shares of common stock were not considered in computing diluted earnings per common shares for the years ended December 31, 2010 and 2009, respectively, because they were not dilutive.

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**Note 18: Disclosures About Fair Values of Financial Instruments**

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

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

***Available-for-Sale Securities***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include an investment in an equity security and mutual fund (in 2009 only). If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. Government agency securities, U.S. Government agency-sponsored mortgage-backed securities and obligations of state and political subdivisions. Level 2 securities are valued by a third party pricing service commonly used in the banking industry, utilizing observable inputs. Observable inputs include dealer quotes, market spreads, cash flow analysis, the U.S. Treasury curve, trade execution data, market consensus prepayment spreads and available credit information. The pricing provided utilizes evaluated pricing models that are based on asset class. These models incorporate available market information including quoted prices of securities with similar characteristics and, because many fixed income securities do not trade on a daily basis, apply available information through processes such as benchmark curves. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

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The following tables present the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within fair value hierarchy in which the fair value measurements fall at December 31, 2010 and 2009:

	<b>2010</b>			
	<b>Fair Value Measurements Using</b>			
<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	
Available-for-sale securities				
U.S. agencies	\$ 6,498,880	\$ -	\$ 6,498,880	\$ -
U.S. Government agency-sponsored mortgage-backed securities	22,830,499	-	22,830,499	-
State and political subdivision	12,814,413	-	12,814,413	-
Equity securities	40,800	40,800	-	-
	<u>\$ 42,184,592</u>	<u>\$ 40,800</u>	<u>\$ 42,143,792</u>	<u>\$ -</u>
	<b>2009</b>			
	<b>Fair Value Measurements Using</b>			
<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	
Available-for-sale securities				
U.S. agencies	\$ 7,542,092	\$ -	\$ 7,542,092	\$ -
Mutual funds	2,346,484	2,346,484	-	-
U.S. Government agency-sponsored mortgage-backed securities	10,955,558	-	10,955,558	-
State and political subdivision	7,416,964	-	7,416,964	-
Equity securities	60,000	60,000	-	-
	<u>\$ 28,321,098</u>	<u>\$ 2,406,484</u>	<u>\$ 25,914,614</u>	<u>\$ -</u>

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

***Impaired Loans (Collateral Dependent)***

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral for collateral-dependent loans.

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

Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

***Real Estate Owned***

The fair value other real estate owned is measured based on the value of the collateral securing those loans/real estate and is determined using several methods. The fair value of real estate is generally determined based on appraisals by qualified licensed appraisers. The appraisers typically determine the value of the real estate by utilizing an income or market valuation approach. If an appraisal is not available, the fair value may be determined by using a cash flow analysis.

The following tables present the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2010 and 2009:

	<b>2010</b>		
	<b>Fair Value Measurements Using</b>		
<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Impaired loans	\$ 5,294,227	\$ -	\$ 5,294,227
Real estate owned	237,000	-	237,000

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	2009 Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$ 6,292,188	\$ -	\$ -	\$ 6,292,188

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

***Cash and Cash Equivalents and Federal Home Loan Bank Stock***

The carrying amount approximates fair value.

***Held-to-Maturity Securities***

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

***Loans Held for Sale***

The fair value for loans held for sale is based on market quotes.

***Loans***

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

***Deposits***

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

***Interest Receivable, Interest Payable and Investments in Limited Liability Partnerships***

The carrying amount approximates fair value.

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***Long-Term Debt and Federal Home Loan Bank Advances***

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt.

***Commitments to Originate Loans, Letters of Credit and Lines of Credit***

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of forward sale commitments is estimated based on current market prices for loans of similar terms and credit quality. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date.

The following table presents estimated fair values (in thousands) of the Company's financial instruments at December 31, 2010 and 2009.

	2010		2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets				
Cash and cash equivalents	\$ 11,496	\$ 11,496	\$ 13,403	\$ 13,403
Available-for-sale securities	42,185	42,185	28,321	28,321
Held-to-maturity securities	400	407	550	559
Loans held for sale	354	354	53	53
Loans receivable, net	182,913	191,544	191,267	199,202
Accrued interest receivable	981	981	1,041	1,041
FHLB stock	4,293	4,293	4,704	4,704
Investment in limited liability partnerships	233	233	318	318
Financial liabilities				
Deposits	176,401	178,585	154,630	156,684
Borrowed funds	53,566	54,352	73,064	74,112
Accrued interest payable	129	129	178	178

While these estimates of fair value are based on management's judgment of the most appropriate factors, there is no assurance that were Northeast Indiana Bancorp to have disposed of such items at December 31, 2010 and 2009, the estimated fair values would necessarily have been achieved at that date, since market values may differ depending on various circumstances. The estimated fair values at December 31, 2010 and 2009 should not necessarily be considered to apply at subsequent dates.

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**Note 19: Condensed Financial Information (Parent Company Only)**

Presented below is condensed financial information as to financial position, results of operations and cash flows of Northeast Indiana Bancorp:

**Condensed Balance Sheets**

	<b>2010</b>	<b>2009</b>
<b>Assets</b>		
Cash and due from banks	\$ 395,344	\$ 311,453
Investment in subsidiary bank	24,206,258	23,292,790
Other assets	68,012	73,124
Total assets	\$ 24,669,614	\$ 23,677,367
<b>Liabilities</b>		
Notes payable	\$ 633,966	\$ 702,729
Accrued expenses	10,499	9,879
Total liabilities	644,465	712,608
<b>Shareholders' Equity</b>	24,025,149	22,964,759
Total liabilities and shareholders' equity	\$ 24,669,614	\$ 23,677,367

**Condensed Statements of Income**

	<b>2010</b>	<b>2009</b>
<b>Income</b>		
Dividends from subsidiaries	\$ 1,100,000	\$ 1,000,000
Total income	1,100,000	1,000,000
<b>Expenses</b>	170,002	154,355
<b>Income Before Income Tax and Equity in Undistributed</b>		
<b>Income of Subsidiaries</b>	929,998	845,645
<b>Income Tax Benefit</b>	(66,287)	(60,185)
<b>Income Before Equity in Undistributed Income of</b>		
<b>Subsidiaries</b>	996,285	905,830
<b>Equity in Undistributed Income of Subsidiaries</b>	1,016,013	972,128
<b>Net Income</b>	\$ 2,012,298	\$ 1,877,958

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**Condensed Statements of Cash Flows**

	<u>2010</u>	<u>2009</u>
<b>Operating Activities</b>		
Net income	\$ 2,012,298	\$ 1,877,958
Items not providing cash		
Equity in undistributed income of subsidiaries	(1,016,013)	(972,128)
Change in		
Other assets	5,112	9,047
Accrued expenses	6,578	(5,462)
Net cash provided by operating activities	<u>1,007,975</u>	<u>909,415</u>
<b>Financing Activities</b>		
Dividends	(855,321)	(818,397)
Principal payments on notes payable	<u>(68,763)</u>	<u>(65,594)</u>
Net cash used in financing activities	<u>(924,084)</u>	<u>(883,991)</u>
<b>Net Change in Cash and Due From Banks</b>	83,891	25,424
<b>Cash and Due From Banks at Beginning of Year</b>	<u>311,453</u>	<u>286,029</u>
<b>Cash and Due From Banks at End of Year</b>	<u>\$ 395,344</u>	<u>\$ 311,453</u>

**Note 20: Significant Estimates and Concentrations**

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

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**Note 21: Risks and Uncertainties**

The Company's allowance for loan losses contains certain assumptions on the value of collateral dependent loans as well as certain economic and industry conditions which may be subject to change within the near term. These changes could have an adverse impact on the allowance for loan loss in the near term.

***Current Economic Conditions***

The current protracted economic decline continues to present financial institutions with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair values of investments and other assets, constraints on liquidity and capital and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans. The consolidated financial statements have been prepared using values and information currently available to the Company.

At December 31, 2010, the Company held \$57.7 million in commercial real estate and \$9.1 million in land and land development loans collateralized by commercial and development real estate. Due to national, state and local economic conditions, values for commercial and development real estate have declined significantly, and the market for these properties is depressed.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the consolidated financial statements could change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses and capital that could negatively impact the Company's ability to meet regulatory capital requirements and maintain sufficient liquidity.

**Note 22: Subsequent Events**

Subsequent events have been evaluated through March 18, 2011, which is the date the consolidated financial statements were available to be issued.