

Northeast Indiana Bancorp, Inc.

Accountants' Report and Consolidated Financial Statements

December 31, 2009 and 2008

Northeast Indiana Bancorp, Inc.

December 31, 2009 and 2008

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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, 2009 and 2008, 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, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

Indianapolis, Indiana
March 15, 2010

Northeast Indiana Bancorp, Inc.
Consolidated Balance Sheets
December 31, 2009 and 2008

Assets

	<u>2009</u>	<u>2008</u>
Interest-earning cash and cash equivalents	\$ 10,929,272	\$ 6,122,439
Noninterest-earning cash and cash equivalents	2,473,235	2,284,062
Cash and cash equivalents	13,402,507	8,406,501
Available-for-sale securities	28,321,098	28,168,302
Held-to-maturity securities	550,000	550,000
Loans receivable, net of allowance for loan losses of \$2,868,468 in 2009 and \$1,750,605 in 2008	191,267,218	204,171,179
Loans held for sale	53,200	709,400
Accrued interest receivable	1,040,528	1,070,708
Premises and equipment, net	2,158,406	2,178,416
FHLB stock	4,704,200	4,704,200
Investments in limited liability partnerships	317,643	462,279
Cash surrender value of life insurance	6,514,390	6,253,417
Goodwill	130,972	130,972
Other intangible assets	62,382	87,354
Other assets	4,201,796	3,346,794
	<u>\$ 252,724,340</u>	<u>\$ 260,239,522</u>

Liabilities and Shareholders' Equity

Liabilities

Deposits		
Demand - noninterest-bearing	\$ 11,065,663	\$ 19,873,896
Savings	15,937,128	11,697,906
Negotiable order of withdrawal	37,417,925	33,792,126
Money market demand account	10,142,319	5,716,915
Time	80,066,486	84,617,922
Total deposits	154,629,521	155,698,765
Borrowed funds	73,064,228	79,982,575
Accrued expenses and other liabilities	2,065,832	2,782,849
Total liabilities	<u>229,759,581</u>	<u>238,464,189</u>

Shareholders' Equity

Preferred stock, no par value, 500,000 shares authorized; 0 shares issued	-	-
Common stock, \$.01 par value; 4,000,000 shares authorized; 2,593,988 shares issued - 2009 and 2008; 1,230,670 shares outstanding - 2009 and 2008	26,407	26,407
Additional paid-in capital	29,810,101	29,790,224
Retained earnings, substantially restricted	14,395,988	13,336,427
Accumulated other comprehensive income, net of tax	253,361	143,373
Treasury stock, at cost; 1,363,318 shares - 2009 and 2008	(21,521,098)	(21,521,098)
Total shareholders' equity	<u>22,964,759</u>	<u>21,775,333</u>
	<u>\$ 252,724,340</u>	<u>\$ 260,239,522</u>

Northeast Indiana Bancorp, Inc.
Consolidated Statements of Income
Years Ended December 31, 2009 and 2008

	2009	2008
Interest Income		
Loans, including fees	\$ 12,484,711	\$ 12,754,938
Taxable securities	1,136,907	1,470,906
Non-taxable securities	178,612	137,256
Deposits with financial institutions	3,526	98,840
Total interest income	13,803,756	14,461,940
Interest Expense		
Deposits	3,183,291	4,372,725
Borrowed funds	2,466,178	3,408,189
Total interest expense	5,649,469	7,780,914
Net Interest Income	8,154,287	6,681,026
Provision for Loan Losses	1,400,000	430,000
Net Interest Income After Provision for Loan Losses	6,754,287	6,251,026
Noninterest Income		
Service charges on deposit accounts	707,905	702,798
Net loss on securities	(234,235)	(84,594)
Other-than-temporary impairment - securities	-	(1,677,916)
Net gains on sales of loans	754,283	135,252
Net loss on sale of repossessed assets	(123,219)	(41,820)
Increase in cash surrender value of life insurance	260,973	245,187
Brokerage fees	303,521	392,262
Other	668,045	574,692
Total noninterest income	2,337,273	245,861
Noninterest Expense		
Salaries and employee benefits	3,052,370	3,074,071
Occupancy	861,214	744,258
Data processing	753,975	675,922
Deposit insurance premium	381,000	98,653
Professional fees	287,353	177,470
Correspondent bank charges	122,861	132,536
Valuation allowances - repossessed assets	-	360,000
Other	882,669	837,429
Total noninterest expense	6,341,442	6,100,339
Income Before Income Tax	2,750,118	396,548
Income tax expense	872,160	154,481
Net Income	\$ 1,877,958	\$ 242,067
Basic Earnings Per Common Share	\$ 1.53	\$ 0.19
Diluted Earnings Per Common Share	\$ 1.53	\$ 0.19

Northeast Indiana Bancorp, Inc.
Consolidated Statements of Shareholders' Equity
Years Ended December 31, 2009 and 2008

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Treasury Stock	Total
Balance, January 1, 2008	\$ 26,407	\$ 29,760,894	\$ 13,933,331	\$ (170,156)	\$ (20,523,459)	\$ 23,027,017
Comprehensive income						
Net income			242,067			242,067
Other comprehensive income						
Net change in unrealized gains on securities available for sale				665,295		665,295
Total tax effect				(351,766)		(351,766)
Total other comprehensive income				313,529		313,529
Total comprehensive income						555,596
Cash dividends (\$.66 per share)			(838,971)			(838,971)
Purchase of 83,247 shares of treasury stock					(997,639)	(997,639)
Amortization of RRP contributions		29,330				29,330
Balance, December 31, 2008	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
Balance, December 31, 2009	\$ 26,407	\$ 29,810,101	\$ 14,395,988	\$ 253,361	\$ (21,521,098)	\$ 22,964,759

Northeast Indiana Bancorp, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2009 and 2008

	2009	2008
Operating Activities		
Net income	\$ 1,877,958	\$ 242,067
Items not requiring (providing) cash		
Depreciation and amortization	365,141	414,136
Provision for loan losses	1,400,000	430,000
Deferred income tax expense	254,001	(388,309)
Net (gain) loss on sale of		
Foreclosed real estate and repossessed assets	121,517	43,079
Loans held for sale	(754,283)	(135,252)
Net loss on securities available for sale	234,235	84,594
Other-than-temporary impairment of securities	-	1,677,916
Originations of loans held for sale	(32,107,059)	(4,585,260)
Proceeds from loans sold	33,517,542	4,011,112
Amortization of RRP	19,877	29,330
Changes in		
Other assets	(1,655,829)	546,587
Accrued interest receivable	30,180	31,170
Accrued expenses and other liabilities	(717,017)	709,134
Net cash provided by operating activities	2,586,263	3,110,304
Investing Activities		
Purchases of available-for-sale securities	(6,506,570)	(6,556,289)
Purchases of held-to-maturity securities	-	(550,000)
Proceeds from maturities and principal payments of available-for-sale securities	3,772,834	6,566,000
Proceeds from the sales of available-for-sale securities	2,616,944	1,114,669
Purchases of loans	(912,501)	(9,268,047)
Proceeds from sale of participation loans	5,890,000	1,500,000
Net change in loans	5,570,453	(11,376,093)
Proceeds from sale of foreclosed real estate and repossessed assets	1,007,041	393,560
Expenditures on premises and equipment	(222,470)	(66,832)
Net cash provided by (used in) investing activities	11,215,731	(18,243,032)
Financing Activities		
Net change in deposits	(1,069,244)	14,570,183
Advances from FHLB	28,750,000	33,000,000
Repayment of FHLB advances	(33,250,000)	(36,000,000)
Net change in other borrowed funds	(2,418,347)	3,418,882
Dividends paid	(818,397)	(838,971)
Purchase of treasury stock	-	(997,639)
Net cash provided by (used in) financing activities	(8,805,988)	13,152,455
Net Change in Cash and Cash Equivalents	4,996,006	(1,980,273)
Cash and Cash Equivalents, Beginning of Year	8,406,501	10,386,774
Cash and Cash Equivalents, End of Year	\$ 13,402,507	\$ 8,406,501
Supplemental Cash Flows Information		
Interest paid	\$ 5,800,982	\$ 7,838,225
Income taxes paid	855,000	399,000
NonCash Transactions		
Transfer from loans to other real estate and repossessed assets	956,008	955,523

Northeast Indiana Bancorp, Inc.
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

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. 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% and 73% of the loan portfolio at December 31, 2009 and 2008, 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, 2009 and 2008

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.

Effective April 1, 2009, the Company adopted new accounting guidance related to recognition and presentation of other-than-temporary impairment (ASC 320-10). 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.

Prior to the adoption of the recent accounting guidance on April 1, 2009, management considered, in determining whether other-than-temporary impairment exists, (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 Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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.

Northeast Indiana Bancorp, Inc.
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

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.

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 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. 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 \$875,000 and \$1,049,000 at December 31, 2009 and 2008.

Northeast Indiana Bancorp, Inc.
Notes to Consolidated Financial Statements
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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
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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, 2009 and 2008, the Company has a share-based employer compensation plan, which is more fully described in Note 14.

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.

Northeast Indiana Bancorp, Inc.
Notes to Consolidated Financial Statements
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The Company has adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*, concerning the accounting and disclosures for uncertain tax positions, previously deferred by ASC 740-10-65. As part of the implementation of this standard, management evaluated its current tax positions and determined the adoption of this standard had no material impact on the consolidated financial statements of the Company. The Company's tax years still subject to examination by authorities are years subsequent to 2006.

Employee Stock Ownership Plan

The cost of shares issued to the Employee Stock Ownership Plan (ESOP), but not yet allocated to participants, is shown as a reduction of shareholders' equity. Compensation expense is based on the market price of shares as they are committed to be released to participants' accounts.

Dividends on allocated ESOP shares reduce retained earnings; dividends on unearned ESOP shares reduce debt and accrued interest.

Financial Instruments

Financial instruments include credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

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.

Stock Dividends

Common share amounts related to the ESOP plan, stock compensation plans and earnings and dividends per share are restated for stock dividends.

Northeast Indiana Bancorp, Inc.
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

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 is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2009 was \$1,119,000.

The financial institutions holding the Company's cash accounts are participating in the FDIC's Transaction Account Guarantee Program. Under that program, through June 30, 2010, all noninterest-bearing transactions are fully guaranteed by the FDIC for the entire amount in the account.

Effective October 3, 2008, the FDIC's insurance limits increased to \$250,000. The increase in federally insured limits is currently set to expire December 31, 2013. At December 31, 2009, the Company's cash accounts exceeded federally insured limits by approximately \$10,414,000.

Reclassifications

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

Northeast Indiana Bancorp, Inc.
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

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
Available-for-Sale Securities:			
December 31, 2009:			
U.S. Government agencies	\$ 7,542,092	\$ 272,058	\$ -
Mutual funds	2,346,484	-	(340,722)
Mortgage-backed securities	10,955,558	519,651	(46)
State and political subdivision	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>
December 31, 2008:			
U.S. Government agencies	\$ 9,782,890	\$ 498,793	\$ -
Mutual funds	3,118,189	-	(452,778)
Mortgage-backed securities	11,472,099	454,103	(6,079)
State and political subdivisions	3,795,124	47,407	(7,054)
	<u>\$ 28,168,302</u>	<u>\$ 1,000,303</u>	<u>\$ (465,911)</u>

There were securities held to maturity at December 31, 2009 and 2008 with an amortized cost of \$550,000 and \$550,000, respectively, and a fair value of \$558,649 and \$550,000, respectively.

The amortized cost and fair value of available-for-sale securities at December 31, 2009, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale	
	Amortized Cost	Fair Value
Within one year	\$ 3,997,494	\$ 4,075,549
One to five years	5,846,112	6,156,386
Five to ten years	2,250,089	2,267,021
After ten years	2,449,390	2,460,100
	<u>14,543,085</u>	<u>14,959,056</u>
Mutual funds	2,687,207	2,346,484
Mortgage-backed securities	10,435,953	10,955,558
Equity securities	24,000	60,000
	<u>\$ 27,690,245</u>	<u>\$ 28,321,098</u>
Totals		

Northeast Indiana Bancorp, Inc.
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

	Held-to-Maturity	
	Amortized Cost	Fair Value
Due in one year or less	\$ 150,000	\$ 150,000
One to five years	400,000	408,649
Totals	\$ 550,000	\$ 558,649

Sales of securities available for sale were as follows:

	2009	2008
Proceeds	\$ 2,616,944	\$ 1,114,669
Gross gains	49,626	12,909
Gross losses	(283,861)	(97,503)

Securities pledged at December 31, 2009 and 2008 had a carrying value of \$17,123,636 and \$19,760,100, and were pledged to secure securities sold under repurchase agreements and Federal Home Loan Bank advances.

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)
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	\$ 1,031,751	\$ (8,559)	\$ 2,346,484	\$ (340,722)	\$ 3,378,235	\$ (349,281)

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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, 2008:

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	\$ 3,118,189	\$ (452,778)	\$ -	\$ -	\$ 3,118,189	\$ (452,778)
Mortgage-backed securities	818,627	(5,475)	149,680	(605)	968,307	(6,080)
State and political subdivisions	<u>850,091</u>	<u>(7,053)</u>	<u>-</u>	<u>-</u>	<u>850,091</u>	<u>(7,053)</u>
Total temporarily impaired securities	<u>\$ 4,786,907</u>	<u>\$ (465,306)</u>	<u>\$ 149,680</u>	<u>\$ (605)</u>	<u>\$ 4,936,587</u>	<u>\$ (465,911)</u>

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, 2009 and 2008 was \$3,378,000 and \$4,937,000, which is approximately 12% and 17% of the Company's investment portfolio.

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, 2009.

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, 2009.

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Mutual Funds

The mutual fund consists 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 and management elected to recognize other-than-temporary impairment (OTTI) of \$728,000 during the quarter ended September 30, 2008.

The fund's managers have ceased purchasing private label MBS and have instead re-invested amortized cash flows into government sponsored enterprise (GSE) MBS. At December 31, 2009, the fund's NAV is only 12.7% lower than current carrying value. The fund's NAV has improved back to \$7.30 at year end 2009 resulting from the continued improvement in the asset mix of the fund as originally anticipated. Additionally, the fund has continued to pay a monthly cash dividend. A review of the underlying securities inside the fund indicate that the asset mix has improved further to 69.3% U.S. Government Agency MBS at December 31, 2009 compared to 54.9% at December 31, 2008. There continues to be principal amortization on each fund every month that comes back to the fund at par (no discount). With those amortized funds being reinvested back into either cash or GSE MBS pools, the asset mix continues to improve and move the NAV higher. Management does not intend to sell the investments before their recovery, and accordingly, concluded there is no further other-than-temporary impairment at December 31, 2009.

Note 3: Loans Receivable, Net

Categories of loans at December 31, include:

	<u>2009</u>	<u>2008</u>
Mortgage		
Secured by one-to-four family residences	\$ 72,797,684	\$ 91,410,226
Secured by other properties	57,311,465	46,594,734
Construction - residential	1,903,835	1,969,701
Land and land development	10,075,632	10,065,542
Automobile	11,729,453	10,914,642
Commercial	30,263,847	34,934,165
Home equity and second mortgage	8,905,167	8,644,816
Other consumer	<u>2,050,769</u>	<u>2,307,363</u>
Total loans	195,037,852	206,841,189
Less		
Loans in process	(47,176)	(123,496)
Undisbursed portion of construction loans	(609,864)	(528,226)
Net deferred loan origination fees	(245,126)	(267,683)
Allowance for loan losses	<u>(2,868,468)</u>	<u>(1,750,605)</u>
Net loans	<u>\$ 191,267,218</u>	<u>\$ 204,171,179</u>

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Activity in the allowance for loan losses was as follows:

	2009	2008
Balance, beginning of year	\$ 1,750,605	\$ 2,712,378
Provision charged to expense	1,400,000	430,000
Charge-offs	(461,680)	(1,900,116)
Recoveries	179,543	508,343
Balance, end of year	<u>\$ 2,868,468</u>	<u>\$ 1,750,605</u>

Impaired loans were as follows:

	2009	2008
Loans with no allocated allowance for loan losses	\$ -	\$ -
Loans with allocated allowance for loan losses	<u>7,599,727</u>	<u>2,461,952</u>
	<u>\$ 7,599,727</u>	<u>\$ 2,461,952</u>

	2009	2008
Amount of the allowance for loan losses allocated	\$ 1,307,539	\$ 320,362
Average of impaired loans during the year	5,559,163	2,380,553
Interest income recognized during impairment	251,859	65,144
Cash-basis interest income recognized	251,857	65,144

Nonperforming loans were as follows:

	2009	2008
Nonaccrual loans	\$ 2,827,204	\$ 2,565,589

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 4: Secondary Mortgage Marketing Activities

Activity for capitalized mortgage servicing rights was as follows:

	<u>2009</u>	<u>2008</u>
Servicing rights		
Carrying amount, beginning of year	\$ 235,048	\$ 237,004
Assumptions of servicing obligations	217,268	38,759
Amortized to expense	<u>(73,105)</u>	<u>(40,715)</u>
Carrying amount, end of year	<u>\$ 379,211</u>	<u>\$ 235,048</u>

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of loans serviced for others totaled \$44,978,000 and \$23,505,000 at December 31, 2009 and 2008, respectively.

Note 5: Premises and Equipment, Net

Premises and equipment were as follows:

	<u>2009</u>	<u>2008</u>
Land	\$ 458,331	\$ 458,331
Automobiles	46,676	40,392
Buildings and leasehold improvements	2,493,004	2,489,354
Furniture, fixtures and equipment	<u>2,313,640</u>	<u>2,229,282</u>
	5,311,651	5,217,359
Less accumulated depreciation	<u>(3,153,245)</u>	<u>(3,038,943)</u>
Net premises and equipment	<u>\$ 2,158,406</u>	<u>\$ 2,178,416</u>

Depreciation expense was \$239,000 and \$240,000 for 2009 and 2008.

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Note 6: Goodwill and Intangible Assets

Goodwill

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

	2009	2008
Balance as of January 1	\$ 130,972	\$ 130,972
Acquired goodwill	-	-
Balance as of December 31	\$ 130,972	\$ 130,972

Acquired Intangible Assets

Acquired intangible assets at December 31 were:

	2009		2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
Customer relationship intangibles	\$ 199,728	\$ 137,346	\$ 199,728	\$ 112,374

Aggregate amortization expense was approximately \$25,000 for 2009 and 2008, respectively.

Note 7: Deposits

Time deposits of \$100,000 or more were \$45,201,000 and \$45,814,000 at December 31, 2009 and 2008. Scheduled maturities of time deposits for the next five years were as follows:

2010	\$ 51,397,116
2011	15,176,265
2012	7,658,753
2013	4,752,978
2014	1,071,365
Thereafter	10,009
	\$ 80,066,486

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Note 8: Borrowed Funds

Borrowed funds included the following at December 31:

	<u>2009</u>	<u>2008</u>
Federal Home Loan Bank (FHLB) advances	\$ 55,500,000	\$ 60,000,000
Securities sold under repurchase agreements	16,861,499	19,213,892
Note payable	<u>702,729</u>	<u>768,683</u>
	<u>\$ 73,064,228</u>	<u>\$ 79,982,575</u>

Securities sold under agreements to repurchase are secured by government agency and mortgage-backed securities with a carrying amount of \$17,124,000 and \$19,760,000 for the years ended December 31, 2009 and 2008.

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:

	<u>2009</u>	<u>2008</u>
Average daily balance during the year	\$ 6,875,958	\$ 10,346,571
Average interest rate during the year	0.15%	1.47%
Maximum month-end balance during the year	16,861,499	19,213,892
Weighted-average interest rate during the year	0.15%	1.47%

FHLB Advances

FHLB advances have fixed and variable interest rates ranging from 1.26% to 6.88%. Scheduled maturities and the weighted-average interest rates by maturity for the years ended December 31, were as follows:

	<u>2009</u>		<u>2008</u>	
	<u>Amount</u>	<u>Weighted-Average Interest Rate</u>	<u>Amount</u>	<u>Weighted-Average Interest Rate</u>
2009	\$ -		\$ 14,500,000	4.81%
2010	22,000,000	4.68%	22,000,000	5.93%
2011	15,000,000	3.85%	14,000,000	3.96%
2012	13,500,000	1.69%	9,500,000	4.82%
2013	4,000,000	2.51%	-	6.34%
Thereafter	<u>1,000,000</u>	<u>3.00%</u>	<u>-</u>	<u>0.00%</u>
	<u>\$ 55,500,000</u>	<u>3.54%</u>	<u>\$ 60,000,000</u>	<u>5.02%</u>

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FHLB advances are secured by FHLB stock, eligible mortgage loans and specifically pledged securities. At December 31, 2009 and 2008, in addition to FHLB stock, collateral of approximately \$88,921,000 and \$105,981,000 was pledged to the FHLB to secure advances outstanding.

In addition, \$14,000,000 of the advances outstanding at December 31, 2009 contained options with dates ranging from March 1, 2010 to May 10, 2011, whereby the interest rate may be adjusted by the FHLB, at which time the advances 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:

2010	\$ 69,470
2011	72,631
2012	75,865
2013	79,388
2014	83,001
Thereafter	<u>322,374</u>
	<u>\$ 702,729</u>

Note 9: 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 2009 and 2008 was approximately \$41,000 and \$71,000. 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.

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 2009 and 2008 was approximately \$61,000 and \$73,000.

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Supplemental Retirement Plans

First Federal has a supplemental retirement plan for the CEO 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 \$1,207,000 and \$1,132,000 at December 31, 2009 and 2008. Expense related to the plans was approximately \$96,000 and \$146,000 for 2009 and 2008.

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 \$6,514,000 and \$6,253,000 at December 31, 2009 and 2008. The income derived from the investment in life insurance included in other income was approximately \$261,000 and \$245,000 for 2009 and 2008.

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.

Cash contributions, including dividends on unearned ESOP shares, were approximately \$0 during 2009 and 2008. There was no ESOP compensation expense for 2009 and 2008.

ESOP shares at December 31 are as follows:

	2009	2008
Allocated shares	144,704	127,848
Shares acquired with ESOP cash	3,000	21,321
Shares vested and withdrawn	87,878	83,413
Total shares	235,582	232,582
Fair value of unreleased shares	\$ -	\$ -

There were no cash contributions or expense associated with the ESOP plan as of December 31, 2009 and 2008. The Company is obligated at the option of each beneficiary to repurchase shares of the ESOP. At December 31, 2009, the fair value of the 147,704 allocated shares held by the ESOP was \$1,514,000. The fair value of the 149,169 allocated shares held by the ESOP at December 31, 2008 was \$985,000.

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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 was 105,620, and 9,276 shares are available for future grants. The shares awarded will vest 20% per year over a period of five years. There were no new RRP grants awarded in 2009 and 2008. The expense associated with the RRP was approximately \$20,000 and \$29,000 in 2009 and 2008, respectively.

	2009	Weighted- Average Grant-Date Fair Value
	Shares	Fair Value
Nonvested, beginning of year	3,450	\$ 18.24
Vested	(1,550)	18.92
Nonvested, end of year	1,900	\$ 17.68

Unearned compensation at December 31, 2009 and 2008 related to the RRP shares is \$34,000 and \$63,000, respectively, will be recognized over a weighted-average period of four years.

Note 10: 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 2006. The provision for income taxes includes these components:

	2009	2008
Federal		
Current	\$ 493,255	\$ 454,924
Deferred	216,570	(374,746)
State		
Current	124,904	87,866
Deferred	37,431	(13,563)
Income tax expense	\$ 872,160	\$ 154,481

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

	<u>2009</u>	<u>2008</u>
Federal statutory rate of 34% times financial statement income before income taxes	\$ 935,040	\$ 134,826
Tax effect of		
State tax, net of federal income tax effect	107,141	49,040
Low income housing credit	(130,478)	(164,984)
Tax exempt income	(55,693)	(42,014)
Utilization of capital loss carryforward	96,513	268,462
Other, net	<u>(80,363)</u>	<u>(90,849)</u>
Income tax expense	<u>\$ 872,160</u>	<u>\$ 154,481</u>

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

	<u>2009</u>	<u>2008</u>
Deferred tax assets		
Deferred compensation	\$ 504,977	\$ 479,537
Bad debts	652,114	686,046
Deferred loan fees	101,883	111,258
Interest on nonaccrual loans	24,351	24,497
Low income housing credit carryforwards	955,659	996,575
Other	<u>92,311</u>	<u>244,641</u>
	<u>2,331,295</u>	<u>2,542,554</u>
Deferred tax liabilities		
Unrealized gains on available-for-sale securities	(377,491)	(391,032)
Depreciation	(150,004)	(142,788)
Prepays	(98,985)	(64,423)
FHLB stock dividends	(193,460)	(193,460)
Pension and employee benefits	<u>(9,411)</u>	<u>(8,448)</u>
	<u>(829,351)</u>	<u>(800,151)</u>
Net deferred tax asset	<u>\$ 1,501,944</u>	<u>\$ 1,742,403</u>

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Retained earnings at December 31, 2009 and 2008 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, 2009 and 2008, respectively. The Company's low income housing credits carryover will begin to expire if unused in 2023.

Note 11: Comprehensive Income

The components of accumulated other comprehensive income, included in the consolidated statement of shareholders' equity, are related to unrealized gains in the available-for-sale investment portfolio. Net unrealized gains as of December 31, 2009 and 2008 were \$631,000 and \$534,000 with related deferred income taxes of \$377,000 and \$391,000, respectively.

Note 12: 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, 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%
As of December 31, 2008						
Total capital						
(to risk-weighted assets)	\$ 22.4	12.0%	\$ 15.0	8.0%	\$ 18.7	10.0%
Tier I (core) capital						
(to risk-weighted assets)	20.9	11.2%	7.5	4.0%	11.2	6.0%
Tier I (core) capital						
(to adjusted total assets)	20.9	8.1%	10.4	4.0%	13.0	5.0%
Tier I (core) capital						
(to average assets)	20.9	8.1%	10.0	4.0%	12.5	5.0%

First Federal was categorized as well capitalized at December 31, 2009 and 2008. 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, 2009, the Bank had no retained earnings available for distribution without regulatory approval.

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Note 13: 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>2009</u>	<u>2008</u>
Fixed rate commitments	\$ 687,847	\$ 3,622,076
Variable rate commitments	20,774,221	18,515,458
Letter of credit	2,598,101	2,520,316

Most loan commitments have terms up to 60 days. At December 31, 2009, fixed commitments have contractual interest rates ranging from 4.375% to 5.125%. 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 4.875% and 4.875%.

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 14: 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, 2009 and 2008, respectively, there were 151,104 and 148,604 shares authorized for future grants.

A summary of option activity under the Plan as of December 31, 2009, and changes during the year then ended, is presented below:

	2009	Weighted- Average Remaining Contractual Term
Shares	Weighted- Average Exercise Price	
Outstanding, beginning of year	18,000	\$ 17.69
Forfeitures	<u>(2,500)</u>	<u>14.66</u>
Outstanding and exercisable, end of year	<u>15,500</u>	<u>\$ 18.18</u>

Note 15: 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:

	2009	2008
Balance as of January 1	\$ 2,866,769	\$ 2,477,831
New loans	2,208,391	1,727,418
Repayments	<u>(1,848,526)</u>	<u>(1,338,480)</u>
Balance as of December 31	<u>\$ 3,226,634</u>	<u>\$ 2,866,769</u>

Related party deposits were approximately \$512,000 and \$373,000 at December 31, 2009 and 2008.

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Note 16: 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>2009</u>	<u>2008</u>
Basic earnings per common share		
Net income available to common shareholders	\$ 1,877,958	\$ 242,067
Weighted-average common shares outstanding before adjustment	1,230,139	1,259,552
Less: non-vested RRP shares	<u>(1,900)</u>	<u>(3,450)</u>
Weighted-average common shares outstanding for basis earnings per common shares	<u>1,228,239</u>	<u>1,256,102</u>
Basic earnings per common share	<u>\$ 1.53</u>	<u>\$ 0.19</u>
Diluted earnings per common share		
Net income available to common shareholders, per above	\$ 1,877,958	\$ 242,067
Weighted-average common shares outstanding	1,228,239	1,256,102
Add: dilutive effects of assumed conversions and exercises of stock options and RRP shares	<u>540</u>	<u>540</u>
Weighted-average common and dilutive shares outstanding for dilutive earnings per common shares	<u>1,228,779</u>	<u>1,256,642</u>
Diluted earnings per common share	<u>\$ 1.53</u>	<u>\$ 0.19</u>

Stock options for 15,500 and 18,000 shares of common stock were not considered in computing diluted earnings per common shares for the years ended December 31, 2009 and 2008, respectively, because they were not dilutive.

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Note 17: 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 used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

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. 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, mortgage-backed securities and obligations of state and municipals. 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 and liabilities 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, 2009 and 2008:

	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)	
Available-for-sale securities				
U.S. agencies	\$ 7,542,092	\$ -	\$ 7,542,092	\$ -
Mutual funds	2,346,484	2,346,484	-	-
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>

	2008			
	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)	
Available-for-sale securities				
U.S. agencies	\$ 9,782,890	\$ -	\$ 9,782,890	\$ -
Mutual funds	3,118,189	3,118,189	-	-
Mortgage-backed securities	11,472,099	-	11,472,099	-
State and political subdivision	3,795,124	-	3,795,124	-
	<u>\$ 28,168,302</u>	<u>\$ 3,118,189</u>	<u>\$ 25,050,113</u>	<u>\$ -</u>

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

The following tables present the fair value measurement of assets and liabilities 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, 2009 and 2008:

	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	<u>\$ 6,292,188</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,292,188</u>

	2008			
	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	<u>\$ 2,141,590</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,141,590</u>

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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 of the Company's financial instruments at December 31, 2009 and 2008.

	2009		2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets				
Cash and cash equivalents	\$ 13,403	\$ 13,403	\$ 8,407	\$ 8,407
Available-for-sale securities	28,321	28,321	28,168	28,168
Held-to-maturity securities	550	559	550	550
Loans held for sale	53	53	709	709
Loans receivable, net	191,267	199,202	204,171	212,702
Accrued interest receivable	1,041	1,041	1,071	1,071
FHLB stock	4,704	4,704	4,704	4,704
Investment in limited liability partnerships	318	318	462	462
Financial liabilities				
Deposits	154,630	156,684	155,699	157,650
Borrowed funds	73,064	74,112	79,983	81,624
Accrued interest payable	178	178	335	335

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, 2009 and 2008, 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, 2009 and 2008 should not necessarily be considered to apply at subsequent dates.

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Note 18: 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

	2009	2008
Assets		
Cash and due from banks	\$ 311,453	\$ 286,029
Investment in subsidiary bank	23,292,790	22,190,797
Other assets	73,124	82,171
Total assets	\$ 23,677,367	\$ 22,558,997
Liabilities		
Notes payable	\$ 702,729	\$ 768,683
Accrued expenses	9,879	14,981
Total liabilities	712,608	783,664
Shareholders' Equity		
	22,964,759	21,775,333
Total liabilities and shareholders' equity	\$ 23,677,367	\$ 22,558,997

Condensed Statements of Income

	2009	2008
Income		
Dividends from subsidiaries	\$ 1,000,000	\$ 1,000,000
Total income	1,000,000	1,000,000
Expenses		
	154,355	145,444
Income Before Income Tax and Equity in Undistributed		
Income of Subsidiaries	845,645	854,556
Income Tax Benefit	(60,185)	(56,687)
Income Before Equity in Undistributed Income of		
Subsidiaries	905,830	911,243
Equity in Undistributed (Distribution in Excess of) Income of		
Subsidiaries	972,128	(669,176)
Net Income	\$ 1,877,958	\$ 242,067

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Condensed Statements of Cash Flows

	<u>2009</u>	<u>2008</u>
Operating Activities		
Net income	\$ 1,877,958	\$ 242,067
Items not requiring (providing) cash		
Equity in undistributed (distributions in excess of) earnings in subsidiaries	(972,128)	669,176
Change in		
Other assets	9,047	(32,517)
Accrued expenses	(5,462)	10,497
Net cash provided by operating activities	<u>909,415</u>	<u>889,223</u>
Investing Activity - maturities of available-for-sale securities	<u>-</u>	<u>150,000</u>
Financing Activities		
Dividends	(818,397)	(838,971)
Purchase of treasury stock	-	(997,639)
Proceeds from notes payable	-	800,150
Principal payments on notes payable	(65,594)	(31,467)
Net cash used in financing activities	<u>(883,991)</u>	<u>(1,067,927)</u>
Net Change in Cash and Due From Banks	25,424	(28,704)
Cash and Due From Banks at Beginning of Year	<u>286,029</u>	<u>314,733</u>
Cash and Due From Banks at End of Year	<u>\$ 311,453</u>	<u>\$ 286,029</u>

Note 19: 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 20: 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, 2009, the Company held \$57.3 million in commercial real estate and \$10.1 million in 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 21: Subsequent Events

Subsequent events have been evaluated through March 15, 2010, which is the date the consolidated financial statements were available to be issued.