



Dear Fellow Shareholder:

This has been the most difficult year in our recent history. Some of the challenges we faced have been caused by the conditions in the economy generally, but most have been particular to the Company. The impact has been that we had a loss of \$13,745,000 for the year ending December 31, 2010, and our financial institution subsidiary, SCB Bank (the “Bank”), has been deemed to be “undercapitalized” under the Prompt Corrective Action provisions of the Federal Deposit Insurance Act. This has been very disappointing for everyone associated with the Company and the Bank. It’s important, however, that we keep our disappointment in perspective and focus on what we are going to do differently to seek a better result for 2011 and future years.

On January 18, 2011, Randy Collier resigned as Executive Vice President of the Company and Chief Executive Officer, President and Director of the Bank. Following Mr. Collier’s resignation, the Board of Directors directed that his loan portfolio be reviewed. Based upon the preliminary results of that review and other factors, management conducted a further review of Mr. Collier’s loan portfolio and other loans at the Bank. The Bank also engaged Professional Bank Services to conduct an independent loan review. Upon completion of the reviews, the Bank reclassified certain loans, increased the allowance for loan losses, took specific reserves and charged off certain loans. As a result, the Bank amended its Thrift Financial Report for the period ending December 31, 2010.

In an effort to address this situation, the Company and the Bank have begun taking corrective actions. In January of this year, following Mr. Collier’s resignation, the Bank took the following actions to restructure its management team:

- Appointed Russell Breeden, III, as Chief Executive Officer of the Bank. Mr. Breeden, who is currently the Chairman, Chief Executive Officer, and President of the Company has over 37 years of experience in the financial services industry. He has been a Director of the Bank since 2002 and has served in several capacities at the Bank and Company, including Chairman, Chief Executive Officer, and President.
- Appointed Steven R. Abel as President and Chief Credit Officer of the Bank. Mr. Abel has over 30 years of banking experience. Mr. Abel has been a Director of the Bank since 1998 and has served in several capacities at the Bank and Company, including Chairman, Chief Executive Officer, President, and Chief Credit Officer. Mr. Abel has agreed to continue to serve as the President of the Bank until such time as the Bank receives the necessary regulatory approvals from the Office of Thrift Supervision (the “OTS”) for the appointment of Larry Lux as the President of the Bank. Upon Mr. Lux’ approval as President of the Bank, Mr. Abel will resign as the President, but will continue as a Director and the Chief Credit Officer of the Bank.
- Appointed Larry Lux as President of the Bank, subject to the approval of the OTS. Mr. Lux, who has been with the Bank for 7 years, is currently serving as the Executive Vice President of the Bank. Mr. Lux has 22 years of banking experience. Prior to joining the Bank, Mr. Lux was the Area President – Vice President Commercial Lending for National City Bank.

- Hired Sarita Grace as Chief Operating Officer. Ms. Grace has 15 years of banking experience and has been a Certified Public Accountant for 19 years. She has an MBA with a focus in Banking, and is a 2007 graduate of the Stonier Graduate School of Banking. Ms. Grace, who was previously employed by the Bank and its affiliate, Paramount Bank, has served the Bank and Paramount Bank in several capacities, including Chief Financial Officer, Chief Credit Officer, and Compliance Officer.
- Appointed Wendell Bernard, who is currently a Director and the Audit Committee Chairman of the Company, to the Board of Directors of the Bank. Mr. Bernard has over 12 years of experience as a Director of the Company or the Bank. He has served as Director of both the Bank and the Company. He owned and operated Bernard Realty, Inc. from 1982 until his retirement in 2010.

Subsequent to the initial management changes, the Board of Directors of the Bank elected Larry Toombs as Chief Executive Officer of the Bank. Mr. Toombs' election as CEO of the Bank must be approved by the OTS prior to him assuming any of the duties and responsibilities of the office. Mr. Toombs will guide the Bank in assessing its current financial and regulatory condition, identifying issues and developing strategic alternatives to respond to the conditions and issues identified. Mr. Toombs has been instrumental in advising other troubled institutions. We are confident that Mr. Toombs' advice will be equally beneficial to us in responding to our current circumstances.

The Boards of Directors of the Company and the Bank are continuing to examine a number of strategic alternatives for restoring the Company's and the Bank's prior capital levels and strength. The Company is currently pursuing a two pronged strategy of shrinking the size of the Bank's balance sheet and raising additional capital from outside sources.

Regulatory Actions

As indicated above, the Bank is currently considered "undercapitalized" under the prompt corrective action provisions of the Federal Deposit Insurance Act. The OTS has issued a formal enforcement action against the Bank in the form of a cease and desist order ("C&D") and a prompt corrective action ("PCA") directive. The OTS has also issued a C&D against the Company. As a result, the Bank and the Company will each be subject to heightened regulatory restrictions, increased reporting requirements and greater regulatory scrutiny.

The C&D issued to the Bank includes a number of restrictions on the operations and management of the Bank, including required capital ratios and growth limitations. Under the C&D, the Bank must obtain and maintain a Tier 1 (Core) Capital Ratio equal to or greater than 8.25% after funding an adequate allowance for loan and lease losses and a Total Risk-Based Capital Ratio equal to or greater than 12.25%. The Bank may not increase its total assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities during the prior quarter without the prior approval of the OTS.

Similar to the C&D applicable to the Bank, the Company's C&D contains restrictions on the operations and management of the Company. Among other restrictions, the Company is prohibited from declaring, making or paying any cash dividends or other capital distributions or purchasing or committing to purchase or redeem any of its equity securities without the prior non-objection of the OTS. As a result, the Company has deferred the dividend payments on the preferred securities that it issued to the United States Department of the Treasury under the TARP Capital Purchase Program. Further, the Company is prohibited from incurring, issuing, renewing, or paying interest or principal on any debt, or committing to do any of the foregoing, without the prior approval of the OTS. The Company has deferred the payments

due on its trust preferred securities. The Company is also required to submit to the OTS a written Capital Plan for enhancing the Company's capital.

There is no doubt we have a large challenge in front of us and a short period of time in which to perform. But management believes we can not only stabilize the Bank, but create a franchise with value. I personally apologize to each of you for these results, but I'm hopeful that, with your continued support, we can create a premier community bank.



Russell Breeden, III
Chairman, Chief Executive Officer
and President

Cautionary Note Regarding Forward Looking Statements

Certain statements contained herein constitute forward-looking statements. Forward-looking statements can be identified by the fact that they include words like "believe," "expect," "anticipate," "estimate," and "intend," or future or conditional verbs such as "will," "would," "should," "could," or "may". These forward-looking statements relate to, among other things, expectations of the business environment in which we operate, projections of future performance, perceived opportunities in the market and potential future credit experience.

These forward-looking statements are based upon the current beliefs and expectations of our management and are inherently subject to significant business, economic, and competitive uncertainties and contingencies, many of which are outside of our control. Our actual results, performance, or achievements may differ materially from those suggested, expressed, or implied by forward-looking statements due to a wide range of factors, including, but not limited to, the general business environment, interest rates, the economy, competitive conditions between banks and non-bank financial services providers, regulatory changes, other factors that may be subject to circumstances beyond our control.

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Report of Independent Auditors

Shareholders and Board of Directors
Blue River Bancshares, Inc.
Shelbyville, Indiana

We have audited the accompanying consolidated balance sheets of Blue River Bancshares, Inc. (the “Company”) as of December 31, 2010 and 2009, and the related consolidated statements of operations, 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 financial statements referred to above present fairly, in all material respects, the financial position of the Company 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.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has incurred significant net losses resulting in the inability to meet minimum regulatory capital requirements, limitations on the use of certain funding sources, and restrictions placed on the Company's operations by the terms of a regulatory agreement. These events raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
August 22, 2011

BLUE RIVER BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2010 AND 2009

ASSETS	2010	2009
ASSETS:		
Cash and cash equivalents:		
Cash and due from banks	\$ 1,791,513	\$ 1,803,604
Interest-bearing deposits	5,197,596	7,205,689
Fed funds sold	1,084,000	1,087,000
Total cash and cash equivalents	<u>8,073,109</u>	<u>10,096,293</u>
Securities available for sale, at fair value	67,563,426	71,286,709
Securities held to maturity, (fair value \$4,389 and \$5,008)	4,317	4,981
Loans receivable, net of allowance for loan losses of \$10,375,740 and \$2,573,424	156,519,322	172,207,099
Loans held for sale	6,670,179	1,874,083
Stock in FHLB and other restricted stock, at cost	2,111,000	2,393,000
Current and deferred income taxes, net	330,891	3,365,487
Premises and equipment, net	1,215,468	1,313,008
Other real estate owned (ORE)	1,910,262	1,436,857
Accrued interest receivable and other assets	2,251,333	2,886,507
TOTAL ASSETS	<u><u>\$ 246,649,307</u></u>	<u><u>\$ 266,864,024</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Interest bearing deposits	\$ 206,741,828	\$ 205,782,515
Non-interest bearing deposits	9,998,130	9,296,529
Advances from FHLB	16,038,847	25,744,933
Subordinated debt	7,217,000	7,217,000
Accrued interest and other liabilities	3,418,516	3,311,348
Total liabilities	<u>243,414,321</u>	<u>251,352,325</u>
SHAREHOLDERS' EQUITY:		
Preferred stock, no par value, 2,000,000 shares authorized, none issued	-	-
Preferred stock, Series A, no par value, 5,000 shares issued and outstanding, \$5,000,000 liquidation value	4,772,033	4,709,619
Preferred stock, Series B, no par value, 250 shares issued and outstanding, \$250,000 liquidation value	271,440	277,383
Common stock, no par value, 10,000,000 shares authorized, 3,507,150 shares issued and 2,999,149 issued and outstanding	25,236,790	25,200,323
Treasury stock - 508,001 shares	(2,705,949)	(2,705,949)
Accumulated deficit	(23,842,992)	(9,977,955)
Accumulated other comprehensive (loss)	(496,336)	(1,991,722)
Total shareholders' equity	<u>3,234,986</u>	<u>15,511,699</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$ 246,649,307</u></u>	<u><u>\$ 266,864,024</u></u>

See accompanying notes to consolidated financial statements

BLUE RIVER BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
INTEREST INCOME:		
Loans receivable	\$ 9,252,021	\$ 9,514,854
Taxable securities	2,582,209	3,596,367
Tax exempt securities	354,006	20,607
Interest-bearing deposits	4,936	4,500
Dividends from FHLB and other equity securities	<u>37,708</u>	<u>61,826</u>
Total interest income	<u>12,230,880</u>	<u>13,198,154</u>
INTEREST EXPENSE:		
Interest expense on deposits	4,765,382	5,374,190
Interest expense on FHLB advances and other borrowings	<u>863,335</u>	<u>1,181,461</u>
Total interest expense	<u>5,628,717</u>	<u>6,555,651</u>
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	6,602,163	6,642,503
PROVISION FOR LOAN LOSSES	<u>11,433,735</u>	<u>4,151,395</u>
NET INTEREST INCOME (LOSS) AFTER PROVISION FOR LOAN LOSSES	<u>(4,831,572)</u>	<u>2,491,108</u>
NON-INTEREST INCOME:		
Service charges and fees on deposit accounts	222,565	318,629
Secondary market mortgage fees	1,479,144	185,253
Net gains (losses) on sales of available for sale securities	100,982	(20,000)
Impairment on available for sale securities (includes total loss of \$380,720 net of \$353,598 recognized in other comprehensive income, pretax in 2010 and a total loss of \$2,526,494 net of \$1,812,494 recognized in other comprehensive income, pretax in 2009)	(27,122)	(714,000)
(Loss) on sale and impairment of fixed assets, other real estate owned, and repossessed assets	(368,740)	(426,898)
Other	<u>222,779</u>	<u>197,228</u>
Total non-interest income	<u>1,629,608</u>	<u>(459,788)</u>
NON-INTEREST EXPENSE:		
Salaries and employee benefits	3,658,616	3,010,930
Premises and equipment	689,273	629,292
Federal deposit insurance and OTS assessment	833,752	593,143
Data processing	515,171	486,028
Advertising and promotion	32,445	44,518
Bank fees and charges	67,732	63,525
Directors fees	99,600	104,400
Professional fees	739,403	566,041
Stationary, supplies and printing	84,369	59,536
Insurance	41,413	35,069
ORE and repossession	178,857	97,430
Loan related expenses	1,125,656	174,465
Other	<u>236,829</u>	<u>259,361</u>
Total non-interest expense	<u>8,303,116</u>	<u>6,123,738</u>
(LOSS) BEFORE INCOME TAX EXPENSE	(11,505,080)	(4,092,418)
INCOME TAX EXPENSE (BENEFIT)	<u>1,911,020</u>	<u>(1,663,066)</u>
NET (LOSS)	(13,416,100)	(2,429,352)
Preferred Stock Dividends, Premium Amortization and Discount Accretion	<u>(328,971)</u>	<u>(270,678)</u>
NET (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	<u>\$ (13,745,071)</u>	<u>\$ (2,700,030)</u>
BASIC AND DILUTED (LOSS) PER SHARE AVAILABLE TO COMMON SHAREHOLDERS	<u>\$ (4.58)</u>	<u>\$ (0.90)</u>
WEIGHTED AVERAGE BASIC AND DILUTED SHARES OUTSTANDING	2,999,149	2,999,313

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2010 AND 2009

	Comprehensive Income (Loss)	Number of Shares Outstanding	Preferred Stock	Common Stock	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
BALANCE, January 1, 2009		3,000,149	\$ -	\$ 25,184,849	\$ (2,702,949)	\$ (6,932,988)	\$ (5,011,861)	\$ 10,537,051
Net (Loss)	\$ (2,429,352)					(2,429,352)		(2,429,352)
Dividends declared (\$.115 per share)						(344,937)		(344,937)
Accrued dividends on preferred stock						(227,083)		(227,083)
Issuance of preferred stock, net of issuance costs of \$56,593			4,943,407					4,943,407
Preferred stock premium amortization and discount accretion			43,595			(43,595)		-
Stock based compensation expense (benefit)				15,474				15,474
Treasury stock repurchases		(1,000)			(3,000)			(3,000)
Other comprehensive income:								
Unrealized gain on securities, net of tax	3,020,139						3,020,139	3,020,139
COMPREHENSIVE INCOME	\$ 590,787							
BALANCE, December 31, 2009		2,999,149	4,987,002	25,200,323	(2,705,949)	(9,977,955)	(1,991,722)	15,511,699
Net (Loss)	\$ (13,416,100)					(13,416,100)		(13,416,100)
Dividends declared (\$.04) per share)						(119,966)		(119,966)
Accrued dividends on preferred stock						(272,500)		(272,500)
Preferred stock premium amortization and discount accretion			56,471			(56,471)		-
Stock based compensation expense				36,467				36,467
Other comprehensive gain:								
Unrealized gain on securities, net of tax and reclassifications	1,495,386						1,495,386	1,495,386
COMPREHENSIVE LOSS	\$ (11,920,714)							
BALANCE, December 31, 2010		<u>2,999,149</u>	<u>\$ 5,043,473</u>	<u>\$ 25,236,790</u>	<u>\$ (2,705,949)</u>	<u>\$ (23,842,992)</u>	<u>\$ (496,336)</u>	<u>\$ 3,234,986</u>

See accompanying notes to consolidated financial statements.

BLUE RIVER BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss)	\$ (13,416,100)	\$ (2,429,352)
Adjustments to reconcile (loss) to net cash from operating activities:		
Depreciation and amortization	200,001	216,755
Net amortization (accretion) of securities	284,613	147,079
Loss (Gain) on sale of securities available for sale	(100,982)	20,000
Impairment on securities available for sale	27,122	714,000
Loss on sale and writedown of real estate owned	355,754	430,361
Loss on sale/disposal/impairment of premises, equipment and other assets	12,986	13,708
Stock compensation expense	36,467	15,474
Loans held for sale	(4,796,096)	(1,874,083)
Provision for loan losses	11,433,735	4,151,395
Changes in assets and liabilities:		
Accrued interest receivable	212,903	(128,614)
Other assets	2,447,238	(2,814,973)
Other liabilities	107,168	1,879,261
Net cash from operating activities	<u>(3,195,191)</u>	<u>341,011</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loans funded, net of collections	2,341,049	(1,979,704)
Maturities and paydowns of securities available for sale and held to maturity	32,868,236	28,480,750
Proceeds from sale of securities available for sale	11,911,243	980,000
Purchases of available-for-sale securities	(38,773,976)	(33,490,889)
Purchases of FHLB stock	282,000	-
Purchase of premises and equipment	(105,767)	(58,444)
Proceeds from sale of real estate owned	<u>1,086,860</u>	<u>112,647</u>
Net cash from investing activities	<u>9,609,645</u>	<u>(5,955,640)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(392,466)	(572,020)
Purchase of treasury stock	-	(3,000)
Repayment of FHLB advances	(25,499,086)	(38,826,291)
Proceeds from FHLB advances	15,793,000	29,600,000
Proceeds from the issuance of preferred stock & warrants, net of costs	-	4,943,407
Net increase in deposits	<u>1,660,914</u>	<u>14,670,508</u>
Net cash from financing activities	<u>(8,437,638)</u>	<u>9,812,604</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,023,184)	4,197,975
CASH AND CASH EQUIVALENTS, Beginning of year	<u>10,096,293</u>	<u>5,898,318</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 8,073,109</u>	<u>\$ 10,096,293</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid during the year	<u>\$ 5,411,836</u>	<u>\$ 6,642,022</u>
Income tax paid (net of refunds)	<u>\$ (126,652)</u>	<u>\$ 55,000</u>
Net loans transferred to other real estate owned	<u>\$ 1,916,019</u>	<u>\$ 901,923</u>

BLUE RIVER BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Blue River Bancshares, Inc. (the “Company”) conform to accounting principles generally accepted in the United States of America and prevailing practices within the banking and thrift industry. A summary of the more significant accounting policies follows:

Basis of Presentation—The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, SCB Bank (f/k/a Shelby County Bank). All significant intercompany balances and transactions have been eliminated.

Description of Business—SCB Bank provides financial services to south central Indiana through its main office in Shelbyville, three other full service branches in Shelbyville, Morristown, and St. Paul, and a loan production office located in Fishers, Indiana. In the fourth quarter of 2009, SCB Bank added the staff of W.R. Clouse & Associates, a mortgage origination business with over 17 years of experience providing high quality products and services to clients in Indianapolis, Indiana and surrounding areas.

SCB Bank is subject to competition from other financial institutions and other financial services providers and is regulated by certain federal agencies and undergoes periodic examinations by those regulatory authorities. (See Note 14).

Subsequent Events—The Company has evaluated subsequent events for recognition and disclosure through August 22, 2011, which is the date the financial statements were available to be issued.

Use of Estimates— To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The allowance for loan losses, fair values of financial instruments, other-than-temporary impairment of securities and deferred tax assets are particularly subject to change.

Cash and Cash Equivalents—All highly liquid investments with an original maturity of three months or less are considered to be cash equivalents. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and federal funds purchased and repurchase agreements.

Securities—Securities not classified as trading are classified as held to maturity or available for sale. Debt securities that SCB Bank has the positive intent and ability to hold to maturity are classified as held to maturity. Debt and equity securities that may be sold before maturity are classified as available for sale. Securities classified as held to maturity are reported at amortized cost, and those available for sale are reported at fair value with unrealized gains and losses excluded from earnings and reported as other comprehensive income (loss). Premiums and discounts are amortized over the contractual lives of the related securities using the level yield method. Gain or loss on sale of securities is based on the specific identification method.

Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other

factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Loans Held for Sale—Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Mortgage loans held for sale are generally sold with servicing rights released.

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. Interest on loans is accrued over the term of the loans on a level yield basis. The recognition of interest income is discontinued when, in management's judgment, the interest will not be collectible in the normal course of business.

Nonrefundable loan origination fees, net of certain direct loan origination costs, are deferred and recognized as a yield adjustment over the life of the underlying loan.

Generally, any loan greater than 90 days past due must be well secured and in the process of collection to continue accruing interest. In the event that a loan is classified as impaired in accordance with accounting standards before it is 90 days past due, SCB Bank will discontinue accruing interest unless the loan is well secured and in the process of collection. Cash payments received on nonaccrual loans generally are applied against principal, and interest income is only recorded once principal recovery is reasonably assured. Loans are not reclassified as accruing until principal and interest payments are brought current and future payments appear reasonably certain.

Allowance for Loan Losses—A provision for probable incurred losses on loans is charged to operations based upon management's evaluation of the probable losses. Such an analysis of the allowance for loan losses is performed monthly by management to assess the appropriate levels of allowance for loan losses. This analysis includes specific reserves allocated to classified assets. Specific reserves are established based upon an analysis of individual borrowers identified in the classified loan list, establishing the probability of loss associated with such borrowers, including comparison of loan balances versus estimated liquidation values of collateral based upon independent information sources or appraisals performed by board-approved licensed appraisers. The remaining pools of loans, excluding those classified or delinquent are analyzed for the general loan loss reserve. Management evaluates this general reserve using loan loss statistics by various types of loan categories, including statistics published periodically by the Office of Thrift Supervision (OTS) and FDIC, the Bank's historical losses, and recommendations by the Chief Credit Officer. Appropriate loss percentages are applied to the Bank's distribution of portfolio balances. The calculated reserve is compared to the Bank's existing reserve to establish the provision necessary to bring the actual reserve balance in compliance with the allowance analysis. Such an analysis is susceptible to changes that could result in a material adjustment in the near term. While management endeavors to use the best information available in making its evaluations, future allowance adjustments may be necessary if conditions change substantially from the assumptions used in making the evaluations. The following portfolio segments have been identified: commercial, real estate, and consumer loans.

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loan impairment is reported when full repayment under the terms of the loan is not expected. 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, for which the terms have been modified, and for which the borrower is experiencing financial difficulties and the Company has granted concessions, are considered troubled debt restructuring and classified as impaired. Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan's effective rate at inception or the value of collateral if cash flows are not expected.

Commercial and agricultural loans are evaluated individually for impairment. Smaller balance homogeneous loans are evaluated for impairment in total. Such loans include real estate loans secured by one-to-four family residences and loans to individuals for household, family and other personal expenditures. Individually evaluated loans on nonaccrual are generally considered impaired. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

FHLB Stock—Federal law requires a member institution of the Federal Home Loan Bank (“FHLB”) system to hold common stock of its district FHLB according to a predetermined formula. This investment is stated at cost, which represents redemption value, and may be pledged to secure FHLB advances. FHLB stock is evaluated for impairment based on ultimate recovery at par value. Both cash and stock dividends are reported as income.

Real Estate Owned— Real estate owned represents real estate acquired through foreclosure or deed in lieu of foreclosure. When property is acquired, it is recorded at the estimated fair value less selling costs at the date of acquisition, with any resulting write-down charged against the allowance for loan losses. Any subsequent deterioration of the property is charged directly to real estate owned expense. Costs relating to the development and improvement of real estate owned are capitalized, whereas costs relating to holding and maintaining the property are charged to expense as incurred.

Premises and Equipment—Land is carried at cost. Premises, furniture and equipment are carried at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 10 to 40 years. Furniture, fixtures and equipment are depreciated using the straight-line method with estimated useful lives that range from 2 to 10 years.

Income Taxes—The Company and its wholly owned subsidiaries file consolidated income tax returns. Income tax expense/benefit is the total of current year income due or refundable and the change in deferred tax assets and liabilities. Deferred income tax assets and liabilities reflect the impact of temporary differences between amounts of assets and liabilities for financial reporting purposes and the basis of such assets and liabilities as measured by tax laws and regulations. A valuation allowance is established, if needed, to reduce deferred tax assets to the amount more likely than not to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Earnings per Share—Income per share of common stock is based on the weighted average number of common shares and the dilutive effect of stock options outstanding during the year.

The following is a reconciliation of the weighted average common shares for the basic and diluted income per share computations:

	2010	2009
Basic earnings per share:		
Weighted average common shares	<u>2,999,149</u>	<u>2,999,313</u>
Diluted earnings per share:		
Weighted average common shares	2,999,149	2,999,313
Dilutive effect of stock options	<u>-</u>	<u>-</u>
Weighted average common and incremental shares	<u>2,999,149</u>	<u>2,999,313</u>

During the years ended December 31, 2010 and 2009, 158,300 and 164,800 stock options were anti-dilutive and therefore zero were considered in the calculation of the dilutive effect of stock options.

Comprehensive Income (Loss)—Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale which are also recognized as separate components of equity.

Fair Values of Financial Instruments—Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 17. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Stock Based Compensation— Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Corporation's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Loan Commitments and Related Financial Instruments— Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial 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.

Loss Contingencies— Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Dividend Restriction— Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to shareholders. The holding company currently must obtain regulatory approval for dividends given the net deficit situation. The holding company also has restrictions on dividends as a result of its participation in the Capital Purchase Program (See Note 3) and due to regulatory requirements (See Note 14).

Stock Repurchases — The Company periodically repurchased shares of its outstanding common stock through open market purchases or other methods during the first quarter of 2009. Repurchased shares are recorded as treasury shares on the trade date at cost. The Company is currently restricted from repurchasing shares of its common stock, except in limited circumstances, without the approval of the U.S. Department of the Treasury (the "Treasury") as a result of its participation in the Capital Purchase Program (See Note 3). and due to regulatory requirements (See Note 14).

Reclassifications— Certain amounts in the 2009 financial statements have been reclassified to conform to the 2010 presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

Adoption of New Accounting Standards — In June 2009, the FASB amended previous guidance relating to the transfers of financial assets and eliminates the concept of a qualifying special purpose entity. This Statement was applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009 for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. This Statement is applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities are evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. Additionally, the disclosure provisions of this Statement were also amended and apply to transfers that occurred both before and after the effective date of this Statement. The effect of adopting this new guidance did not have a material effect on the Company's results of operations or financial position.

2. MANAGEMENT PLANS AND GOING CONCERN CONSIDERATIONS

These consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Bank and the Holding Company are subject to a number of enforcement actions and other requirements imposed by federal banking regulators related to credit quality, capital concerns and net losses, among other issues. See Note 14 for a further discussion regarding these regulatory consent orders.

On June 30, 2011, the Company responded to the Office of Thrift Supervision "OTS"/Office of the Comptroller of the Currency "OCC" with a Capital and Business Plan; as of the date of this annual report the Capital and Business Plan is pending approval by the OCC and there is no guarantee that the plan will be approved. This plan projects the Company and the Bank to be "well capitalized", as defined by regulatory prompt corrective action guidelines by September 30, 2011; however, the plan does not meet the higher capital ratios imposed by the regulatory orders of the Company and the Bank. Despite the restrictions under which the Bank has been operating, it has maintained adequate liquidity, even during the transitioning of Indiana public fund deposits to other banks and the withdrawal of broker deposits.

Our plans for 2011 include the following:

- Pursue all available strategies to recapitalize the Bank to the levels required by the regulatory order;
- Restructure management to enhance and significantly strengthen the Company;
- Continue to reduce our loan concentration credit exposure by obtaining paydowns, payoffs and participations;
- Continue to reduce non-performing assets and our overall credit exposure;
- Market our services to community banking customers in our core market area that we serve and make continual adjustments to increase profitability; and
- Continue to develop a comprehensive plan to address all the requirements of the regulatory order.

There can be no assurance that our actions referred to above will successfully resolve all of the concerns of the federal banking regulatory authorities. These events and uncertainties raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

3. PREFERRED STOCK

On March 6, 2009, as part of the Troubled Asset Relief Program ("TARP") Capital Purchase Program, the Company entered into a Letter Agreement and Securities Purchase Agreement (collectively, the "Purchase Agreement") with the Treasury, pursuant to which the Company sold 5,000 shares of newly authorized Fixed Rate Cumulative Perpetual Preferred Stock, Series A, no par value per share and liquidation value \$1,000 per share (the "Series A Preferred Stock") and also issued warrants (the "Warrants") to the U.S. Treasury to acquire an additional \$250,000 of Fixed Rate Cumulative Perpetual Preferred Stock, Series B no par value and liquidation value \$1,000 per share (the "Series B Preferred Stock") for an aggregate purchase price of \$5,000,000 in cash. Subsequent to the closing, the U.S. Treasury exercised the Warrants and the Company issued 250 shares of the Series B Preferred Stock. The Series A Preferred Stock qualifies as Tier 1 capital and will pay cumulative dividends at a rate of 5% per annum for the first five years, and 9% per annum thereafter. The Series A Preferred Stock may be redeemed by the Company at any time with the approval of the OTS. The Series B Preferred Stock qualifies as Tier 1 capital and will pay cumulative dividends at a rate of 9% per annum. The Series B Preferred Stock may also be redeemed by the Company at any time with the approval of the OTS. Neither the Series A nor the Series B Preferred Stock is subject to any contractual restrictions on transfer, except that the U.S. Treasury or any of its transferees may not effect any transfer that, as a result of such

transfer, would require the Company to become subject to the periodic reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934.

Pursuant to the terms of the Purchase Agreement, the ability of the Company to declare or pay dividends or distributions on, or purchase, redeem or otherwise acquire for consideration, shares of its Common Stock will be subject to restrictions, including a restriction against increasing dividends from the last quarterly cash dividend per share \$.035 declared on the Common Stock prior to March 6, 2009. The redemption, purchase or other acquisition of trust preferred securities of the Company or its affiliates also will be restricted. These restrictions will terminate on the earlier of (a) the third anniversary of the date of issuance of the Preferred Stock and (b) the date on which the Preferred Stock has been redeemed in whole or the U.S. Treasury has transferred all of the Preferred Stock to third parties, except that, after the third anniversary of the date of issuance of the Preferred Stock, if the Preferred Stock remains outstanding at such time, the Company may not increase its common dividends per share without obtaining consent of the U.S. Treasury.

The Purchase Agreement also subjects the Company to certain of the executive compensation limitations included in the Emergency Economic Stabilization Act of 2008 (the “EESA”) as amended by the American Recovery and Reinvestment Act of 2009 (the “ARRA”). In this connection, as a condition to the closing of the transaction, the Company’s Senior Executive Officers (as defined in the Purchase Agreement) (the “Senior Executive Officers”), (i) voluntarily waived any claim against the U.S. Treasury or the Company for any changes to such officer’s compensation or benefits that are required to comply with the regulation issued by the U.S. Treasury under the TARP Capital Purchase Program and acknowledged that the regulation may require modification of the compensation, bonus, incentive and other benefit plans, arrangements and policies and agreements as they relate to the period the U.S. Treasury owns the Preferred Stock of the Company; and (ii) entered into a letter with the Company amending the Benefit Plans with respect to such Senior Executive Officers as may be necessary, during the period that the Treasury owns the Preferred Stock of the Company, as necessary to comply with Section 111(b) of the EESA.

Due to the recent regulatory actions described in Note 13, the Company began deferring its quarterly TARP dividend payment beginning May 15, 2011. Under the TARP Purchase Agreement the Company is permitted to defer the quarterly payment for up to six (6) consecutive payments.

4. SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale securities and held-to-maturity investment securities portfolio at December 31, 2010 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Available-for-sale				
2010:				
State and political subdivision	\$ 8,958,685	\$ 57,987	\$ (101,451)	\$ 8,915,221
U.S. Treasury and federal agency	24,998,306		(615)	24,997,691
Government agency mortgage-backed securities: residential	1,804,967	111,770	-	1,916,737
Government agency collateralized mortgage obligations	5,674,887	114,093	-	5,788,980
Private label collateralized mortgage obligations	26,266,435	322,257	\$ (996,314)	25,592,378
Equity securities	<u>687,373</u>	<u>-</u>	<u>(334,954)</u>	<u>352,419</u>
Total available-for-sale	<u>\$ 68,390,653</u>	<u>\$ 606,107</u>	<u>\$ (1,433,334)</u>	<u>\$ 67,563,426</u>

	Amotized Cost	Gross Unrecognized Gains	Losses	Fair Value
Held-to-maturity 2010:				
Government agency mortgage-backed securities: residential	\$ <u>4,317</u>	\$ <u>72</u>	\$ <u>-</u>	\$ <u>4,389</u>

The fair value of securities available-for-sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) as of December 31, 2009 were as follows:

	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
Available-for-sale 2009:				
U.S. Treasury and federal agency	\$ 13,325,760	\$ 458,419	\$ (5,259)	\$ 13,778,920
Government agency mortgage-backed securities: residential	2,298,512	99,327	-	2,397,839
Government agency collateralized mortgage obligations	17,757,368	279,242	(14,810)	18,021,800
Private label collateralized mortgage obligations	40,382,093	164,783	(3,741,045)	36,805,831
Equity securities	<u>842,512</u>	<u>-</u>	<u>(560,193)</u>	<u>282,319</u>
Total available-for-sale	<u>\$ 74,606,245</u>	<u>\$ 1,001,771</u>	<u>\$ (4,321,307)</u>	<u>\$ 71,286,709</u>

The carrying amount, unrecognized gains and losses and fair value of securities held-to-maturity were as follows:

	Amotized Cost	Gross Unrecognized Gains	Losses	Fair Value
Held-to-maturity 2009:				
Government agency mortgage-backed securities: residential	\$ <u>4,981</u>	\$ <u>27</u>	\$ <u>-</u>	\$ <u>5,008</u>

The following table summarizes the amortized cost and fair value of the investment securities portfolio as of December 31, 2010 and is shown by expected maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Equity securities have no maturity date.

	Available-for-Sale		Held- to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Government agency mortgage-backed securities residential				
Due within one year	\$ -	\$ -	\$ -	\$ -
Due after one year through five years	-	-	-	-
Due after five years through ten years	1,725,622	1,834,454	4,317	4,389
Due after ten years	79,345	82,283	-	-
Government agency collateralized mortgage obligations - CMO's				
Due within one year	-	-	-	-
Due after one year through five years	-	-	-	-
Due after five years through ten years	1,698,130	1,726,112	-	-
Due after ten years	3,976,757	4,062,868	-	-
U.S. Treasury and federal agency				
Due within one year	24,998,306	24,997,691	-	-
Due after one year through five years	-	-	-	-
Due after five years through ten years	-	-	-	-
Due after ten years	-	-	-	-
Private label collateralized mortgage obligations - CMO's				
Due within one year	-	-	-	-
Due after one year through five years	-	-	-	-
Due after five years through ten years	5,631,297	5,831,268	-	-
Due after ten years	20,635,138	19,761,110	-	-
Equity securities	687,373	352,419	-	-
State and political subdivision				
Due within one year	3,800,605	3,800,970	-	-
Due after one year through five years	200,000	200,091	-	-
Due after five years through ten years	1,050,834	1,035,330	-	-
Due after ten years	3,907,245	3,878,830	-	-
Total	\$ 68,390,652	\$ 67,563,426	\$ 4,317	\$ 4,389

Securities pledged at year-end 2010 and 2009 had a carrying amount totaling approximately \$14.0 million and \$28.2 million and were pledged to secure Federal Home Loan Bank advances (see Note 8).

During the years ended December 31, 2010 and 2009 the gross realized gains on available for sale securities was \$300,698 and \$0 and the gross losses were \$199,716 and \$20,000.

The following tables provide the gross unrealized losses and fair value aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position, at December 31 (dollars in thousands):

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)
2010:						
Available for Sale:						
State and political subdivision	\$ 5,772	\$ (101)	\$ -	\$ -	5,772	(101)
Government agency collateralized mortgage obligations- CMO's	-	-	-	-	-	-
U.S. Treasury and federal agency	19,998	(1)	-	-	19,998	(1)
Private label collateralized mortgage obligations	-	-	13,949	(996)	13,949	(996)
Equity securities	-	-	352	(335)	352	(335)
Total	<u>\$ 25,770</u>	<u>\$ (102)</u>	<u>\$ 14,301</u>	<u>\$ (1,331)</u>	<u>\$ 40,071</u>	<u>\$ (1,433)</u>

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)
2009:						
Available for Sale:						
State and political subdivision	\$ 2,733	\$ (5)	\$ -	\$ -	\$ 2,733	\$ (5)
Government agency mortgage-backed securities-residential	3,468	(15)	-	-	3,468	(15)
Private label collateralized mortgage obligations - CMO's	1,241	(89)	27,991	(3,652)	29,232	(3,741)
Equity securities	-	-	282	(560)	282	(560)
Total	<u>\$ 7,442</u>	<u>\$ (109)</u>	<u>\$ 28,273</u>	<u>\$ (4,212)</u>	<u>\$ 35,715</u>	<u>\$ (4,321)</u>

As of December 31, 2010, there were a total of \$40,071,000 of securities in an unrealized loss position. Approximately 34.8% of which were comprised of collateralized mortgage obligation (CMO's) securities, and represents a decrease of 52.3% from December 31, 2009 in this category. Although U.S. treasury securities comprise 50.0% in an unrealized loss position, the loss at December 31, 2010 is less than \$1,000. On an on-going basis, the Company analyzes the entire investment portfolio and determines whether or not the impairment of the securities is other-than-temporary, in which case impairment would be recorded.

For U.S. Government and U.S. Government-sponsored agencies, and agency mortgage-backed securities, the Company believes that the price movements in these securities are dependent upon the fluctuations in market interest rates given the negligible inherent credit risk of these securities. No credit issues have been identified on those securities that cause management to believe the declines in the market value are other than temporary. Management has the intent and ability to hold these securities for the foreseeable future and does not believe it will be required to sell the securities before they recover, but keeps the securities available for sale should liquidity or other needs develop that would warrant the sale of the securities. While these securities are held in the available for sale portfolio, the current intent is to hold them until a recovery in fair value or maturity.

As of December 31, 2010, there were \$31.9 million in collateralized mortgage obligation securities (CMO's) of which \$26.3 million were not issued by the U.S. Government or U.S. Government-sponsored agencies. These CMO's are private label mortgage-backed securities, which met specific criteria set by the Asset Liability Management Committee at their time of purchase, including having the highest rating available by Moody's, S&P or Fitch. None of these securities have call provisions and all payments are being received as originally agreed with the exception of one security where the shortfall was considered with the OTTI evaluation.

Unrealized losses on equity securities at year end 2010 and 2009 relate to an investment in one bank holding company stock held at the Holding Company. Bank stock values have been negatively impacted by the current economic environment and market pessimism. Equity securities in the Company's portfolio with fair values below amortized cost were deemed to not be other-than-temporarily impaired due in large part to the overall financial condition of the issuer, the improvement in the stock value since December 31, 2009, and that the fair value of the securities had declined due to difficult macroeconomic conditions for equity security valuations of banking organizations.

When OTTI occurs, for either debt securities or purchased beneficial interests that, on the purchase date, were rated below AA, the amount of the OTTI recognized in earnings depends on whether an entity intends to sell the security or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss. If an entity intends to sell or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss, the OTTI shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the OTTI shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment.

As of December 31, 2010, the Company's security portfolio consisted of 79 debt securities, 34 of which were in an unrealized loss position. The majority of unrealized losses are related to the Company's CMO and mortgage-backed securities, as discussed below.

CMO and Mortgage-backed Securities

At December 31, 2010, approximately 18% of the mortgage-backed securities held by the Company were issued by U.S. government-sponsored entities and agencies, primarily Fannie Mae and Freddie Mac, institutions which the government has affirmed its commitment to support. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at December 31, 2010.

The Company's mortgage-backed securities portfolio includes non-agency collateralized mortgage obligations with a fair value of \$25,592,378 which had net unrealized losses of approximately \$674,000 at December 31, 2010. These non-agency mortgage-backed securities were rated AAA at purchase. The Company monitors to insure it has adequate credit support and as of December 31, 2010, the Company believes there is no additional OTTI and does not have the intent to sell these securities, however it may elect to do so. It is not likely that the Company will be required to sell the securities before their anticipated recovery.

In 2009, our analysis of fifteen of these investments included \$17,411,592 amortized cost of private label mortgage securities (CMO's). These securities were rated high quality (AAA and above) at inception, but at December 31, 2009, S&P rated these securities as B+/B-, which are defined as highly speculative, and C, which is defined as default, with some recovery. The Company uses the OTTI evaluation model to compare the present value of expected cash flows to the amortized cost to determine the amount of impairment related to the credit component. The independent analysis utilizes third party reports which include projections of the cash flows of the individual securities under several different scenarios based upon assumptions as to collateral defaults, prepayment speeds, expected losses and the severity of potential losses.

Based upon the initial review using the third party reports, securities may be identified for further analysis. If any are identified, management makes assumptions as to prepayment speeds, default rates, severity of losses and lag time until losses are actually recorded for each security based upon historical data for each security and other factors. Cash flows for each security using these assumptions are generated and the net present value is computed using an appropriate discount rate (the current accounting yield) for the individual security. The net present value is then compared to the book value of the security to determine if there is any other-than-temporary impairment that must be recorded.

Upon completion of the December 31, 2009, analysis, our model indicated other-than-temporary impairment on fifteen of these securities. These fifteen securities had OTTI losses of \$2,526,494 of which \$714,000 was recorded as expense and \$1,812,494 was recorded in other comprehensive income. These fifteen securities remained classified as available for sale at December 31, 2009.

In 2010, our analysis of twenty-two of these investments includes \$16,836,267 amortized cost of private label mortgage securities (CMO's). These securities were rated high quality (AAA and above) at inception, but at December 31, 2010, S&P rated these securities as B/B-, which are defined as highly speculative, and C, which is defined as default, with some recovery. The Company uses the OTTI evaluation model to compare the present value of expected cash flows to the amortized cost to determine the amount of impairment related to the credit component. The independent analysis utilizes third party reports which include projections of the cash flows of the individual securities under several different scenarios based upon assumptions as to collateral defaults, prepayment speeds, expected losses and the severity of potential losses.

Upon completion of the December 31, 2010, analysis, our model indicated an additional other-than-temporary impairment on one of these securities. This security had OTTI losses of \$117,223 of which \$27,122 was recorded as expense the remaining \$93,623 was recorded in other comprehensive income. Furthermore, two available for sale securities were sold and the previous other-than-temporary impairment in the amount of \$254,000 was fully realized and no longer a component of OTTI. At December 31, 2010 twenty-two securities with other-than-temporary impairment remained classified as available for sale at December 31, 2010.

The table below presents a rollforward of the credit losses recognized in earnings for the periods ended December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Beginning balance, January 1	\$ 714,000	\$ -
Amounts related to credit loss for which an other-than-temporary impairment was not previously recognized	27,122	714,000
Sales of available-for-sale securities for which a prior other-than-temporary impairment was recognized	<u>(254,000)</u>	<u>-</u>
Ending balance, December 31	<u>\$ 487,122</u>	<u>\$ 714,000</u>

5. LOANS RECEIVABLE

Loans receivable at December 31 by major categories are as follows:

	<u>2010</u>	<u>2009</u>
Real estate mortgage loans:		
One-to-four family	\$ 24,324,401	\$ 25,898,067
Multi-family	7,853,977	8,183,039
Home equity lines	34,007,615	39,941,760
Non Residential	57,869,256	60,002,636
Consumer loans	2,061,524	3,099,558
Commercial loans	<u>40,778,289</u>	<u>37,655,463</u>
Gross loans	166,895,062	174,780,523
Less allowance for loan losses	<u>(10,375,740)</u>	<u>(2,573,424)</u>
	<u>\$ 156,519,322</u>	<u>\$ 172,207,099</u>

Activity in the allowance for loan losses for the years ended December 31 is as follows:

	<u>2010</u>	<u>2009</u>
Beginning balance	\$ 2,573,424	\$ 1,030,129
Provision for loan losses	11,433,735	4,151,395
Charge-offs	(3,650,027)	(2,659,594)
Recoveries	<u>18,608</u>	<u>51,494</u>
Ending balance	<u>\$ 10,375,740</u>	<u>\$ 2,573,424</u>

The following tables present the balance (in thousands) in the allowance for loan losses and the recorded investment in loans and impairment method as of December 31, 2010.

	Commercial				Total
	Loans and Leases	Real Estate Loans	Consumer Loans	Unallocated	
Allowance for loan losses:					
Balance at beginning of year	\$ 455	\$ 2,060	\$ 8	\$ 50	\$ 2,573
Provision for losses	2,871	\$ 8,249	364	(50)	\$ 11,434
Charge-offs	(1,098)	(2,277)	(275)	-	\$ (3,650)
Recoveries	8	10	1	-	\$ 19
Balance at end of year	<u>\$ 2,236</u>	<u>\$ 8,042</u>	<u>\$ 98</u>	<u>\$ (0)</u>	<u>\$ 10,376</u>
Ending allowance balance:					
Individually evaluated for impairment	\$ 1,745	\$ 6,361	\$ 65	\$ -	\$ 8,171
Collectively evaluated for impairment	491	1,681	33	-	\$ 2,205
Total	<u>\$ 2,236</u>	<u>\$ 8,042</u>	<u>\$ 98</u>	<u>\$ -</u>	<u>\$ 10,376</u>
Ending loan balance:					
Individually evaluated for impairment	\$ 9,425	\$ 26,254	\$ 112	\$ -	\$ 35,791
Collectively evaluated for impairment	31,353	97,802	1,949	-	<u>131,104</u>
Total	<u>\$ 40,778</u>	<u>\$ 124,056</u>	<u>\$ 2,061</u>	<u>\$ -</u>	<u>\$ 166,895</u>

The recorded investment in loans does not include accrued interest.

Currently, the majority of loans considered impaired are on non-accrual. The Bank's policy for recognizing income on non-accrual loans is to accrue interest until a loan is classified as non-accrual. For loans that are determined to be non-accrual, interest accrued in excess of 90 days past the due date is reversed against current earnings. No interest is accrued after a loan is classified as non-accrual. All payments received for loans which are classified as non-accrual are utilized to reduce the principal balance outstanding. In certain circumstances, loans can be deemed impaired while not being classified as non-accrual. A portion of the allowance for loan losses can be allocated to these impaired yet still accruing loans, determined by management on a loan by loan basis.

Impaired loans for the years ended December 31 are as follows:

	<u>2010</u>	<u>2009</u>
	(Dollars in thousands)	
Impaired loans with allowance for loan losses allocated	\$ 16,887	\$ 9,201
Impaired loans with no allowance for loan losses allocated	<u>18,904</u>	<u>1,135</u>
Total impaired loans	\$ 35,791	\$ 10,336
Allowance for loan losses allocated to impaired loans	8,171	1,860
Average balance of impaired loans	10,556	6,352
Non-recognized interest income on impaired loans	857	480
Interest income recognized during impairment	46	66
Interest income recognized on cash basis	39	61

The following table presents loans (in thousands) individually evaluated for impairment by class of loans as of December 31, 2010:

	Unpaid Principal <u>Balance</u>	Recorded <u>Investment</u>	Allowance of Loan Losses <u>Allocated</u>
Loans without a related allowance recorded:			
Commercial	\$ 3,752	\$ 3,752	\$ -
Residential:			
One-to-four family	1,847	1,847	-
Multi-family	2,654	2,654	-
Home equity lines of credit	1,655	1,655	-
Non-residential	8,962	8,962	-
Consumer	<u>34</u>	<u>34</u>	<u>-</u>
Total	<u>\$ 18,904</u>	<u>\$ 18,904</u>	<u>\$ -</u>
Loans with a related allowance recorded:			
Commercial	\$ 5,673	\$ 5,673	\$ (1,745)
Residential:			
One-to-four family	2,104	2,104	(839)
Multi-family	1,702	1,702	(941)
Home equity lines of credit	4,244	4,244	(3,415)
Non-residential	3,086	3,086	(1,166)
Consumer	<u>78</u>	<u>78</u>	<u>(65)</u>
Total	<u>\$ 16,887</u>	<u>\$ 16,887</u>	<u>\$ (8,171)</u>
Total Impaired Loans	<u>\$ 35,791</u>	<u>\$ 35,791</u>	<u>\$ (8,171)</u>

Nonaccrual loans and loans past due 90 days (in thousands) still on accrual were as follows:

	<u>2010</u>	<u>2009</u>
Loans past due over 90 days still on accrual	\$ 572	\$ 1,108
Nonaccrual loans	20,339	7,284

Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The following table presents the recorded investment (in thousands) in nonaccrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2010:

	Loans Past Due Over 90 Days	
	<u>Nonaccrual</u>	<u>Still Accruing</u>
Commercial	\$ 4,185	\$ 131
Residential:		
One-to-four family	2,433	205
Multi-family	1,764	-
Home equity lines of credit	4,313	115
Non residential	7,579	68
Consumer	<u>65</u>	<u>53</u>
Total	<u>\$ 20,339</u>	<u>\$ 572</u>

The following table presents the aging of the recorded investment (in thousands) in past due loans as of December 31, 2010 by class of loans:

	30-59 Days	60-89 Days	Greater than 90 Days	Total	Loans Not	Total
	<u>Past Due (A)</u>	<u>Past Due (B)</u>	<u>Past Due (C)</u>	<u>Past Due</u>	<u>Past Due (D)</u>	<u>Loans</u>
Commercial	\$ 633	\$ 2,292	\$ 3,099	\$ 6,024	\$ 34,754	\$ 40,778
Residential:				-		-
One-to-four family	399	413	2,044	2,856	21,468	24,324
Multi-family	919	-	338	1,257	6,597	7,854
Home equity lines of credit	987	452	3,749	5,188	28,820	34,008
Non residential	3,612	2,130	2,718	8,460	49,409	57,869
Consumer	<u>42</u>	<u>45</u>	<u>511</u>	<u>598</u>	<u>1,464</u>	<u>2,062</u>
Total	<u>\$ 6,592</u>	<u>\$ 5,332</u>	<u>\$ 12,459</u>	<u>\$ 24,383</u>	<u>\$ 142,512</u>	<u>\$ 166,895</u>

(A) Includes \$2,733,000 in loans classified as nonaccrual that are 30-59 days past due.

(B) Includes \$1,020,000 in loans classified as nonaccrual that are 60-89 days past due.

(C) Includes \$11,888,000 in loans classified as nonaccrual that are greater than 90 days past due.

(D) Includes \$4,698,000 in loans classified as nonaccrual that are current.

Troubled Debt Restructurings:

The Company has allocated \$3,224,000 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings totaling \$16,305,000 as of December 31, 2010. As of December 31, 2009, the Company allocated \$103,000 of specific reserves to customers whose loan terms had been modified in troubled debt restructurings totaling \$3,052,000. The Company has not committed to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzed loans individually by classifying the loans as to credit risk. This analysis includes loans with an outstanding balance greater than \$750,000 and non-homogeneous loans, such commercial and commercial real estate loans. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

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

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans or are included in the homogeneous loans which are evaluated mainly based on payment performance. As of December 31, 2010, and based on the most recent analysis performed, the risk category of the loans by class of loans in thousands is as follows:

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total Loans</u>
Commercial	\$ 26,052	\$ 5,302	\$ 7,756	\$ 1,668	\$ 40,778
Residential					
One-to-four family	19,015	1,358	3,870	81	24,324
Multi-family	3,498	-	3,838	518	7,854
Home equity lines of credit	27,222	1,003	4,197	1,586	34,008
Non residential	38,895	7,758	11,050	166	57,869
Consumer	1,883	66	60	53	2,062
Total	<u>\$ 116,565</u>	<u>\$ 15,487</u>	<u>\$ 30,771</u>	<u>\$ 4,072</u>	<u>\$ 166,895</u>

6. PREMISES AND EQUIPMENT

Premises and equipment at December 31 consists of the following:

	<u>2010</u>	<u>2009</u>
Land and improvements	\$ 333,431	\$ 316,637
Buildings and improvements	1,796,586	1,790,997
Furniture and equipment	<u>1,543,231</u>	<u>1,475,294</u>
	3,673,248	3,582,928
Less accumulated depreciation	<u>(2,457,780)</u>	<u>(2,269,920)</u>
	<u>\$ 1,215,468</u>	<u>\$ 1,313,008</u>

Depreciation expense was \$203,026 for 2010 and \$220,380 for 2009.

7. DEPOSITS

A summary of time deposit accounts by scheduled maturities at December 31, 2010 is as follows:

2011	\$ 98,105,899
2012	17,708,723
2013	18,471,319
2014	6,320,117
2015	3,749,448
Thereafter	<u>13,107,588</u>
	<u>\$ 157,463,094</u>

Time deposits of \$100,000 and over at December 31, 2010 are \$103,004,744. Time deposits of \$100,000 and over at December 31, 2009 were \$115,088,872.

8. FEDERAL HOME LOAN BANK ADVANCES

Federal Home Loan Bank fixed rate advances at December 31 are as follows:

Year of Maturity	Fixed Rate Advances			
	2010	Weighted Average Interest Rates	2009	Weighted Average Interest Rates
2010	-	-	\$ 9,965,935	3.24%
2011	\$ 6,350,000	3.48%	6,350,000	3.48%
2012	3,675,000	3.80%	3,675,000	3.80%
2013	1,225,000	3.94%	1,225,000	3.94%
2014	200,000	4.06%	200,000	4.06%
2015	4,088,847	4.16%	3,828,998	4.31%
2017	200,000	4.58%	200,000	4.58%
2018	200,000	4.67%	200,000	4.67%
2020	100,000	5.09%	100,000	5.09%
	<u>\$ 16,038,847</u>	<u>3.81%</u>	<u>\$ 25,744,933</u>	<u>3.61%</u>

At December 31, 2010 and December 31, 2009, there were no Federal Home Loan Bank variable rate advances.

Advances from the FHLB are collateralized by specific first mortgage loans and eligible investment securities totaling \$21,929,000 at December 31, 2010 and \$36,878,000 at December 31, 2009. The FHLB provides safekeeping services related to the pledged investment securities. In 2009, the FHLB changed the reporting requirements from blanket pledge to specific so that the real estate loan collateral is specifically assigned and pledged on a one to one basis. All FHLB advances are due at maturity and are neither callable nor convertible.

9. OTHER BORROWINGS

As of December 31, 2010, SCB Bank had a line of credit of \$5.0 million from Bankers Bank of Kentucky. SCB Bank had no outstanding balances on that line of credit at December 31, 2010. As of August 3, 2011, this line of credit at Bankers Bank of Kentucky has been closed as a result of the Company's current financial situation.

10. SUBORDINATED DEBENTURES

On April 20, 2006, the Company established a new Delaware trust subsidiary, Blue River Bancshares Trust I, which completed the sale of \$7 million of trust preferred securities. Blue River Bancshares Trust I issued the trust preferred securities at a rate equal to the three-month LIBOR rate plus 1.55% which was 1.853% at December 31, 2010. The trust preferred securities mature in 30 years and may be called without penalty on or after June 30, 2011. Blue River Bancshares Trust I simultaneously issued 217 of the trust's common securities to the Company for a purchase price of \$217,000, which, together with the trust preferred securities, constitutes all of the issued and outstanding securities of the trust. Blue River Bancshares Trust I used the proceeds from the sale of the trust preferred securities to purchase the Company's unsecured junior subordinated deferrable interest notes due June 30, 2036 (the "Debenture"). The net proceeds from the offering were used by the Company to pay all amounts due under and terminate a \$6 million credit facility. The additional proceeds were used for general corporate purposes.

The Debenture was issued pursuant to a Junior Subordinated Indenture between the Company and Wilmington Trust Company dated April 20, 2006 (the "Indenture"). The interest payments by the Company will be used by the trust to

pay the quarterly distributions to the holders of the trust preferred securities. The Indenture permits the Company to redeem the Debenture after June 30, 2011.

Pursuant to a Guarantee Agreement dated April 20, 2006, between the Company and Wilmington Trust Company, the Company has guaranteed the payment of distributions and payments on liquidation or redemption of the trust preferred securities. The obligations of the Company under the Guarantee Agreement are unsecured and subordinate to all of the Company's senior debt.

The Company has the right, at any time and from time to time during the term of the Security, to defer the payment of interest on the Securities for a period of up to twenty (20) consecutive quarterly interest periods, during which the Company has the right to make no payments or partial payments of interest on any interest payment due date.

In accordance with accounting standards, the trust will not be consolidated with the Company's financial statements. Accordingly, the Company will not report the securities issued by the trust as liabilities, and instead will report as liabilities the subordinated debentures issued by the Company and held by the trust. The Company's investment in the common stock of the trust was \$217,000 and is included in other assets.

The subordinated debentures may be included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations. Associated with the subordinated debt there are certain debt covenants which include tangible capital requirements, term debt service coverage, well capitalized ratios and non-performing loan requirements. As of December 31, 2010, the Company met all debt covenants. However, due to the recent regulatory actions described in Note 13, the Company began deferring its quarterly payment beginning June 30, 2011.

11. STOCK BASED COMPENSATION

The Company has adopted separate stock option plans for Directors of the Company and subsidiaries (the 1997 Directors' Stock Option Plan and the 2000 Directors' Stock Option Plan) and the officers and key employees of the Company and subsidiaries (the 1997 Key Employee Stock Option Plan, 2000 Key Employee Stock Option Plan and the 2002 Key Employee Stock Option Plan). The Company has also adopted a plan for the directors, officers and key employees of the Company and its subsidiaries (the 2004 Stock Option Plan). The Company has reserved a total of 62,400 shares pursuant to the Directors' Stock Option Plans and 103,000 shares pursuant to the Key Employee Stock Option Plans. The maximum number of shares to be delivered upon exercise of all options granted under the 2004 Plan will not exceed seven percent of the outstanding shares of the Company, less the number of shares covered by outstanding or exercised options under the Key Employees Stock Option Plans or the Directors' Stock Option Plans. The option exercise price per share for the 1997 Directors' Stock Option Plan is the greater of \$12.00 per share or the fair value of a share on the date of grant. The option exercise price for the 2000 Director's Stock Option Plan is the greater of \$8.27 per share or the fair value of a share on the date of the grant. The option exercise price for the Key Employee Stock Option Plans is the fair value of a share on the date of grant. The option exercise price per share for each nonqualified stock option grant will not be less than the fair market value of the shares on the date on which the option was granted.

The stock options granted under the Directors' Stock Option Plans and the Key Employee Stock Option Plans are exercisable at any time within the maximum term of five years for incentive stock options and ten years for non-qualified stock options of the Key Employee Stock Option Plans and fifteen years under the Directors' Stock Option Plans from the grant date. The options are nontransferable and are forfeited upon termination of employment or as a director.

The fair value of stock options is estimated at the grant date using the Black Scholes Option Pricing Model. This model requires a number of assumptions, including expected dividend yields, expected stock price volatility, risk-free interest rates and an expected life of the options. The weighted average volatility for the current period was developed using historical volatility for periods equal to the expected life of the options. An increase in the weighted average volatility assumption will increase stock compensation expense. The risk-free interest rate was developed using U.S. Treasury yields for periods equal to the expected life of the options on the grant date. An increase in the risk-free interest rate will increase stock compensation expense. The expected option life currently used in the pricing model for all awards

is based on historical exercise data. The post-vesting termination behavior is based on historical data. In the future, the Company will monitor the average period until exercise in order to adjust assumptions of the expected life of the options as well as the post-vesting termination rate.

There were no stock options grants in 2010. The following table summarizes the assumptions used to calculate the fair value of the stock option grants for the year ended December 31, 2009.

	December 31, 2009
Weighted average volatility	28.8%
Risk-free interest rate	1.75%
Expected life (in years)	7.0
Dividend yield	2.69%
Weighted average fair value of options granted	\$1.09

The following is an analysis of the activity for the year ended December 31, 2010 and the stock options outstanding at the end of the respective years:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2010	164,800	\$ 6.35		
Granted	-	-		
Exercised	-	-		
Forfeited	<u>(6,500)</u>	<u>5.70</u>		
Outstanding at December 31, 2010	<u>158,300</u>	<u>\$ 6.37</u>	<u>4.2</u>	<u>\$ -</u>
Excercisable at December 31, 2010	<u>137,700</u>	<u>\$ 6.72</u>	<u>3.7</u>	<u>\$ -</u>

The impact of expected forfeitures on outstanding, but not yet exercisable options is deemed to be immaterial.

The intrinsic value for stock options is calculated based on the exercise price of the underlying awards and the market price of our common stock for the year ended 2010. For the year ended December 31, 2010, the Company expensed approximately \$36,000 in pre-tax stock based employee compensation. For the year ended December 31, 2009, the Company reversed approximately \$1,000 of expense related to the forfeitures and expensed approximately \$16,000 for a net expense of \$15,000 pre-tax stock based employee compensation. The remaining un-recognized pre-tax compensation expense of \$40,000 will be recognized through the year ending December 31, 2013 in accordance with existing FASB guidance.

12. INCOME TAXES

An analysis of the income tax provision (benefit) from operations for the years ended December 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Deferred	\$ (4,495,427)	\$ (1,663,066)
Change in valuation allowance	<u>6,406,447</u>	<u>-</u>
	<u>\$ 1,911,020</u>	<u>\$ (1,663,066)</u>

The difference between the financial statement tax provision and amounts computed by applying the statutory federal income tax rate of 34% to pretax income operations is reconciled as follows:

	<u>2010</u>	<u>2009</u>
Income tax provision (benefit) computed at statutory federal rate	\$ (3,911,727)	\$ (1,391,422)
Tax effect of:		
Income from tax exempt securities	(102,629)	(62,460)
State income tax (net of federal tax effect)	(523,799)	(203,730)
Valuation allowance	6,406,447	-
Other	<u>42,728</u>	<u>(5,454)</u>
	<u>\$ 1,911,020</u>	<u>\$ (1,663,066)</u>

The significant components of the Company's net deferred tax asset as of December 31, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Deferred tax assets:		
Allowance for loan losses	\$ 3,922,315	\$ 998,182
Net operating loss carryforwards	1,925,173	695,824
Net unrealized loss on available for sale securities	330,892	1,327,814
Other real estate write-downs	139,032	137,350
Fair market value of net assets acquired allocated for financial reporting purposes to loans	8,358	9,505
Other than temporary impairment	184,699	270,711
Nonaccrual loan interest income	314,392	28,093
Other, net	<u>218,117</u>	<u>130,893</u>
Total deferred tax assets	7,042,978	3,598,372
Deferred tax liabilities:		
Deferred loan fees	(214,093)	(254,484)
Fixed assets depreciation	(26,121)	(39,845)
FHLB stock dividends	<u>(65,425)</u>	<u>(65,425)</u>
Total deferred tax liabilities	(305,639)	(359,754)
Valuation allowance	<u>(6,406,447)</u>	<u>-</u>
Net deferred tax asset	<u>\$ 330,892</u>	<u>\$ 3,238,618</u>

In the year ended December 31, 2010, the Company recorded a valuation allowance against the majority of the net deferred tax assets because management believed it was more likely than not that the benefit associated with the deferred tax asset would not be realized. The Company did not record a valuation allowance against the unrealized loss on available for sale securities as management believes the recovery of the unrealized losses and/or realization of the benefit of such losses is more likely than not.

Carryforwards

At year end 2010, the Company had a federal net operating loss carryforward approximately \$4,852,910 which begins to expire in 2029 and state net operating loss carryforwards of approximately \$4,905,243 which expire at various dates beginning in 2017. The Company has approximately \$121,335 of alternative minimum tax credit carryforwards which do not expire.

Unrecognized Tax Benefits

There were no unrecognized tax benefits as of December 31, 2010 or 2009 and the Company did not recognize any increase in unrecognized benefits during 2010 relative to any tax position taken in 2010. There was no tax-related interest or penalties recorded in the income statement during 2010, and there were no amounts accrued at December 31, 2010 or 2009 for tax-related interest or penalties. The Corporation and its subsidiary are subject to U.S. federal income tax and income tax of the State of Indiana. The Corporation is subject to examination by taxing authorities for years after 2006.

13. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has loan, deposit and other transactions with executive officers, directors and principal shareholders, and with organizations and individuals with which they are financially or otherwise closely associated. As defined, total loans to executive officers, directors and principal shareholders were approximately \$871,000 and \$537,000 at December 31, 2010 and 2009, respectively.

14. CAPITAL REQUIREMENTS AND REGULATORY MATTERS

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

The Bank’s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures that have been established by regulation to ensure capital adequacy require the Bank to maintain minimum capital amounts and ratios (set forth in the table below). The Bank’s primary regulatory agency, the OTS, requires that the Bank maintain minimum ratios of tangible capital (as defined in the regulations) of 1.5%, core capital (as defined) of 4%, or 3% for banks with a composite rating of “1” and total risk-based capital (as defined) of 8%. The Bank is also subject to prompt corrective action capital requirement regulations set forth by the Federal Deposit Insurance Corporation (“FDIC”). The FDIC requires the Bank to maintain minimum capital amounts and ratios of weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). As of December 31, 2010, the Bank did not meet the capital adequacy requirements to which it is subject.

As of December 31, 2010, the most recent notifications from the OTS categorized the Bank as “under-capitalized” under the regulatory framework for prompt corrective action. The “well-capitalized” status was maintained as of December 31, 2009. The primary condition which impacted the change from “well capitalized” to “under-capitalized” is the result of approximately \$10,500,000 in loan loss provision recognized in earnings in the fourth quarter of 2010 and a recorded tax expense of \$2,367,000 due to the valuation allowance on deferred taxes (See Note 12). To be categorized as “adequately capitalized” or “well capitalized”, the Bank must maintain minimum total risk based, Tier 1 risk based, and Tier 1 leverage ratios as set forth in the tables below.

The Capital ratios for SCB Bank are as follows:

	As of December 31, 2010					
	Actual Capital		Minimum for Capital Adequacy		FDICIA Regulations	
	Amount	Ratio	Amount	Ratio	to be "Well Capitalized"	
				Amount	Ratio	
Tangible capital ratio	\$ 9,857,000	4.0 %	\$ 3,696,000	1.5 %	N/A	N/A
Core capital to average assets	9,857,000	4.0 %	9,855,000	4.0 %	12,304,000	5.0 %
Tier 1 capital to risk weighted assets	9,857,000	5.3 %	N/A	N/A	11,187,000	6.0 %
Total capital to risk weighted assets	12,194,000	6.5 %	14,916,000	8.0 %	18,645,000	10.0 %

	As of December 31, 2009					
	Actual Capital		Minimum for Capital Adequacy		FDICIA Regulations	
	Amount	Ratio	Amount	Ratio	to be "Well Capitalized"	
				Amount	Ratio	
Tangible capital ratio	\$ 21,067,000	7.9 %	\$ 3,985,000	1.5 %	N/A	N/A
Core capital to average assets	21,067,000	7.9 %	10,628,000	4.0 %	13,285,000	5.0 %
Tier 1 capital to risk weighted assets	21,067,000	10.3 %	N/A	N/A	12,275,000	6.0 %
Total capital to risk weighted assets	22,856,000	11.2 %	16,367,000	8.0 %	20,459,000	10.0 %

On May 16, 2011, the Company and the Bank each consented to the issuance of an Order to Cease and Desist by the OTS. The Company's Order to Cease and Desist and the Bank's Order to Cease and Desist are formal enforcement actions initiated by the OTS based on their regulatory examinations of the Company and the Bank. The requirements of the Orders will remain in effect until terminated, modified or suspended by the OTS.

The Bank's Order requires it, among other things, to:

Capital - maintain a Tier 1 (Core) Capital Ratio equal to or greater than 8.25% after funding an adequate Allowance for Loan and Lease Losses (ALLL) and a Total Risk-Based Capital Ratio equal to or greater than 12.25% or above by September 30, 2011.

Capital and Business Plan - submit a written Capital and Business Plan by June 30, 2011 for the period beginning with July 1, 2011 through December 31, 2013.

Capital and Business Plan Variance Report - prepare quarterly Capital and Business Plan Variance Reports for review by the Board of Directors within forty-five (45) days of each quarter end and provide these variance reports to Regional Director of the OTS (the "Regional Director") within seven (7) days of such review.

Contingency Plan - submit a written Contingency Plan to the Regional Director within 15 days of any failure by the Bank to comply with the Capital and Business Plan requirements.

Concentrations of Credit - within forty-five (45) days of the date of the Order, to formulate and implement a plan to manage and monitor concentrations of credit, in order to reduce the risk of any concentrations which would detrimentally affect the Bank's current earnings and risk profile.

Mortgage Lending Operation – within sixty-five (65) days of the date of the Order, to develop a written program to improve the mortgage banking operations and submit this plan to the Regional Director.

Credit Administration/TDR Policies - implement credit administration and TDR (Troubled Debt Restructuring) policies within forty-five (45) days of the date of the Order.

Asset Quality - develop specific workout plans for classified loans or groups of loans to any one borrower or relationship of \$200,000 or greater and submit a quarterly written asset report to the Board of Directors of the Bank within forty-five (45) days after the end of each quarter end beginning with the quarter ending June 30, 2011, and submit this report to the Regional Director within sixty (60) days after the end of each quarter.

Management Succession Plan - develop a written management succession plan for the Bank and submit it to the Regional Director by July 31, 2011.

Information Technology - implement written information technology policies and procedures within sixty (60) days of the date of the Order.

Liquidity Management - revise the Bank's Liquidity Policy within sixty (60) days of the date of the Order.

Growth – immediately restrict quarterly growth in total assets not to exceed the amount equal to net interest expense from the prior quarter.

Golden Parachute Payments –not make any golden parachute payments unless the Bank has complied with certain specific regulatory requirements.

Directorate and Management Changes - notify the Regional Director of any changes in the Bank's management and obtain approval before the employment of any individual as a senior executive officer.

Employment Contracts and Compensation Arrangements – not enter into any new contractual arrangement or renew, extend or revise any contractual arrangement relating to compensation or benefits to any director or senior executive officer unless thirty (30) days prior written notice has been provided to the Regional Director.

Third Party Contracts –not enter into any contract with any third party where the annual contract amount exceed two percent (2%) of the Bank's total capital without a minimum of thirty (30) days prior written notice to the Regional Director.

Brokered Deposits – immediately, the Bank must follow the requirements of 12 C.F.R. 337.6(b) with respect to the acceptance of brokered deposits.

The Company's Order requires it, among other things, to:

Capital Plan – submit a written plan for enhancing the consolidated Capital of the Company to the Regional Director by June 30, 2011. The Capital Plan must cover the period beginning with July 1, 2011 through the fiscal year ending December 31, 2013.

Capital Plan Variance Reports - prepare quarterly Capital and Business Plan Variance Reports for review by the Board of Directors within forty-five (45) days following the end of each quarter, and provide these reports to Regional Director within seven (7) days of the review.

Dividends and other Capital Distributions – not declare, make, or pay any dividends or other capital distributions or purchase, repurchase or redeem any equity stock without the prior non-objection of the Regional Director.

Debt Restrictions – not incur, issue, renew, rollover or pay interest or principal on any debt, or increase any current lines of credit without prior written notice to and written notice of non-objections from the Regional Director. The term "debt" includes, but is not limited to, cumulative preferred stock, subordinated debt or trust preferred securities, loans, bonds and guarantees of debt.

Directorate and Management Changes - comply with prior notification requirements for changes in directors and senior executive officers.

Golden Parachute Payments –not make any golden parachute payments.

Employment Contracts and Compensation Arrangements – not enter into any new contractual arrangement or renew, extend or revise any contractual arrangement relating to compensation or benefits to any director or senior executive officer unless prior written notice has been provided to the Regional Director.

Affiliate Transactions –not engage in any new or amended transactions with any subsidiary or affiliate without the prior written non-objection of the Regional Director, with the exception of exempt transactions, and intercompany cost-sharing transactions where a written agreement currently exists between the parties.

On May 25, 2011, the Bank received notice from the OTS that it falls into the “undercapitalized” Prompt Corrective Action (“PCA”) category based upon the Bank’s amended TFR (Thrift Financial Report) as of December 31, 2010 and subsequent March 31, 2011 TFR. As a result, the Bank became subject to certain mandatory and discretionary PCA restrictions and was required to submit a Capital Restoration Plan to the OTS and FDIC no later than June 15, 2011. The Bank submitted the Plan which was received by the regulators on June 15, 2011. As of the date of this annual report the regulators have not accepted nor rejected the Capital Restoration Plan. Under the PCA restrictions, the Bank may not: (i) declare or make any capital distributions without the approval of the OTS; (ii) pay any management fees to persons having control of the Bank; (iii) permit its average total assets during any calendar quarter to exceed its average total assets during the preceding quarter except under limited circumstances; or (iv) acquire any interest in any company or insured depository institution, acquire or establish a new branch, or engage in any new line of business except under limited circumstances.

The Capital Restoration Plan must explain in detail the proposed strategy for becoming, at a minimum adequately capitalized no later than September 30, 2011, and for accomplishing overall objectives and strategies. Should the Bank fail to meet the capital requirements prescribed by the order it must submit within (15) days after, a written Contingency Plan that is acceptable to the Regional Director. The Contingency Plan shall detail the actions to be taken, with specific time frames, to achieve one of the following results by the later of the date of receipt of all required regulatory approvals or sixty (60) days after the implementation of the Contingency Plan: (a) merger with, or acquisition by, another federally insured depository institution or holding company thereof; or (b) voluntary dissolution by filing an appropriate application with the regulator in conformity with applicable laws, regulations and regulatory guidance. Upon receipt of written notification from the Regional Director, the Bank shall implement and adhere to the Contingency Plan immediately. The Bank shall provide the Regional Director with written status reports detailing the Bank’s progress in implementing the Contingency Plan by no later than the first (1st) and fifteenth (15th) of each month following implementation of the Contingency Plan. The Capital Restoration Plan must provide quarterly financial projections which extend four quarters beyond the date the Bank becomes adequately capitalized. The minimum capital standards for adequately capitalized are a 4 percent leverage ratio, a 4 percent Tier 1 risk-based ratio, and an 8 percent risk-based ratio. Within sixty (60) days after receiving the Capital Restoration Plan, the OTS will notify the Bank whether the Plan is acceptable. Upon acceptance, the Bank must submit variance reports to the Regional Director within thirty (30) days following the close of the each calendar quarter.

Based on unaudited June 30, 2011 financial information the Bank’s capital ratios were as follows: Tier one (core) capital, 5.20%; and total risk based capital, 6.46%. These ratios are compared to the regulatory ratios under the consent orders of: Tier one (core) capital, 8.25%; and total risk based capital, 12.25%.

15. EMPLOYEE BENEFIT PLANS

The Company has a 401(k) plan established for substantially all full-time employees, as defined. The Company has elected to match contributions equal to 100% on the first 3% of the employee contributions, and 50% on the next 2% up to a maximum of 4% of an individual’s total eligible salary, as defined. Contributions totaled approximately \$107,000 and \$88,000 for the years ended December 31, 2010 and 2009, respectively.

16. COMMITMENTS

In the normal course of business, the Bank makes various commitments to extend credit, which are not reflected in the accompanying consolidated financial statements. The commitments primarily have variable rates of interest. The following table illustrates these contractual commitments:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
	(Dollars in thousands)	
Loan Commitments	\$ 8,009	\$ 5,997
Unused portions of lines of credit	25,036	24,697
Commitments to sell mortgage loans	12,187	1,888
Standby letters of credit	500	500
Commercial letters of credit	-	366
Total Commitments	<u>\$ 45,732</u>	<u>\$ 33,448</u>

In the event of nonperformance by the other parties to the financial instruments, the Bank's exposure to credit loss for commitments to extend credit is represented by the contract amount of those instruments. The Bank uses the same

credit policies and collateral requirements in making commitments as it does for on-balance sheet financial instruments.

SCB Bank had four leased premises under operating leases as of December 31, 2010. During the year ended 2010, the Bank incurred lease and rent expenses of \$134,078. The following table summarizes future lease commitments of property.

Lease Payments

2011	133,431
2012	120,445
2013	81,578
2014	79,456
2015	81,045
Thereafter	<u>209,774</u>
	<u>\$ 705,729</u>

The cash balance required to be maintained on deposit with the Federal Reserve was \$0 at December 31, 2010 and 2009.

17. STOCK REPURCHASE

On April 24, 2007, the Board of Directors approved the immediate implementation of a stock repurchase program. Under the stock repurchase program, the Company may repurchase up to 50,000 shares of its common stock, which represents approximately 1.425% of the Company's outstanding common stock. Shares will be repurchased from time-to-time in the open market or in privately negotiated transactions in accordance with applicable federal and state securities and banking laws and regulations. The extent to which the Company repurchases shares of its common stock

and the timing of such repurchases will depend upon stock price, general economic and market conditions and other corporate considerations. The repurchase program may be terminated or suspended at any time by resolution of the Board of Directors.

On July 24, 2007, the Company amended the Stock Repurchase Plan of April 24, 2007 to increase the number of shares of stock that may be purchased from 50,000 shares to 250,000 shares. As of December 31, 2007, the Company repurchased 146,529 shares.

Subsequently, on March 6, 2008, the Company amended the Stock Repurchase Plan of April 24, 2007 to increase the number of shares of stock that may be purchased from 250,000 shares to 750,000 shares. The new authorization increased the capacity of the Company to repurchase shares under the Stock Repurchase Program to an aggregate of 603,471 shares. Under the Program, shares were repurchased from time to time in public or private transactions at the discretion of management. As of December 31, 2009 the Company had repurchased 508,001 shares. There were no additional shares repurchased in 2010. Since the Company has participated in the TARP Capital Purchase Program (See Note 3) it is no longer permitted, except in limited circumstances to repurchase any equity or trust preferred securities without the consent of the Treasury.

18. FAIR VALUE MEASUREMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other 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.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of equity securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The Company uses an external model for pricing all other securities available for sale. Our portfolio provider, First Tennessee Financial ("FTN") utilizes several sources for valuing fixed-income securities. Interactive Data Corporation ("IDC") is the primary source used by FTN for security valuation. With the exception of the Company's equity securities, all of the Company's other securities have been valued by IDC. IDC provides reliable and unbiased evaluations and is recognized industry-wide as one of the most reliable valuations services, as such, the Company's securities are considered Level 2. IDC's evaluations are based on market data. Information such as historical and current performance of the underlying collateral, broker quotes, deferral/default rates, collateral coverage ratios, break in yield calculations, cash flow projections, liquidity and credit premiums required by a market participant, and financial trend analysis with respect to the individual issuing financial institutions and insurance companies, are utilized in determining individual security valuations. If IDC determines that they do not have sufficient, objectively-verifiable information to support a valuation, they will discontinue evaluating that security. Due to current market conditions as well as the limited trading activity of these securities, the market value of the securities is highly sensitive to assumption changes and market volatility.

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Non recurring adjustments to certain commercial and residential real estate properties classified as other real estate owned are measured at the lower of carrying value or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying value exceeds the fair value, less costs to sell, an impairment loss is recognized.

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at December 31, 2010 Using			
	Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>	Assets At Fair Value <u>Total</u>
Assets:				
Available for sale securities				
State and political subdivision	\$ -	\$ 8,915,221	\$ -	\$ 8,915,221
Government agency mortgage-backed securities: residential	-	1,916,737	-	1,916,737
Government agency CMO's	-	5,788,980	-	5,788,980
U.S. treasury and federal agency	-	24,997,691	-	24,997,691
Private label CMO's	-	25,592,378	-	25,592,378
Equity securities	352,419	-	-	352,419
Total	<u>\$ 352,419</u>	<u>\$ 67,211,007</u>	<u>\$ -</u>	<u>\$ 67,563,426</u>

	Fair Value Measurements at December 31, 2009 Using			
	Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>	Assets At Fair Value <u>Total</u>
Assets:				
Available for sale securities				
State and political subdivision	\$ -	\$ 13,778,920	\$ -	\$ 13,778,920
Government agency mortgage-backed securities: residential	-	2,397,839	-	2,397,839
Government agency CMO's	-	18,021,800	-	18,021,800
Private label CMO's	-	36,805,831	-	36,805,831
Equity securities	282,319	-	-	282,319
Total	<u>\$ 282,319</u>	<u>\$ 71,004,390</u>	<u>\$ -</u>	<u>\$ 71,286,709</u>

Assets and Liabilities Measured on a Non-Recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

at December 31, 2010 Using

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Impaired loans			
Commercial loans	\$ -	\$ -	\$ 3,928,120
Residential real estate	-	-	2,855,319
Non residential real estate	-	-	1,919,333
Consumer loans	-	-	13,373
Other Real Estate Owned			
Commercial non residential	-	-	1,292,299
Residential	-	-	617,963

Fair Value Measurements at December 31, 2009 Using

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Impaired loans	\$ -	\$ -	\$ 7,340,964
Other Real Estate Owned	-	-	1,146,773

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying value of \$16,887,000, with a valuation allowance of \$8,171,000 resulting in a net increased provision for loan losses of \$7,802,000 from the year ending December 31, 2009 to the year ending December 31, 2010 based on a comparison of valuation allowance on impaired loans. The increase in impaired loans and increase in valuation allowance is primarily due to charge-offs and transfers to other real estate. At December 31, 2009, impaired loans had a carrying value of \$9,201,000, with a valuation allowance of \$1,860,000, resulting in a net increased provision for loan losses of \$1,543,000 for the year ending December 31, 2009.

Other real estate owned which is measured at the lower of carrying of fair value less costs to sell. The net carrying amount of other real estate owned was \$1,910,000, and was the result of write-downs of \$369,000 for the year ending December 31, 2010. At December 31, 2009 the net carrying amount of other real estate owned was \$1,437,000, and was the result of write-downs of \$388,000 for the period.

The methods and assumptions, not previously presented, used to estimate fair values of financial instruments are described as follows:

Cash and Cash Equivalents—For these instruments, the carrying amount is a reasonable estimate of fair value.

Securities—For investment securities, see previous discussions.

Loans Receivable—The fair value of loans is estimated by discounting future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities and does not consider market illiquidity.

Deposits—The fair value of non-interest bearing demand deposits and savings and NOW accounts is the amount payable as of the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using rates currently offered for deposits of similar remaining maturities.

Stock in FHLB and other restricted stock —The fair value of FHLB and other restricted stock is not practicable to determine due to restrictions on transferability.

Accrued Interest Receivable—The fair value approximates carrying value.

FHLB Advances—The fair values of FHLB advances are based on quoted market prices as the majority of FHLB advances have fixed interest rates.

Subordinated Debt—The fair value is estimated based on current rates for similar financing.

Accrued Interest Payable—The fair value approximates carrying value.

Commitments—The commitments to originate and purchase loans have terms that are consistent with current market conditions. Accordingly, the Company estimated that the face amounts of these commitments approximate carrying values (zero).

The estimated carrying and fair values of the Company's financial instruments as of December 31 are as follows:

	2010		2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	\$ 8,073,000	\$ 8,073,000	\$ 10,096,000	\$ 10,096,000
Investment securities, held to maturity	4,000	4,000	5,000	5,000
Investment securities, available for sale	67,563,000	67,563,000	71,287,000	71,287,000
Loans receivable	163,190,000	167,831,000	174,082,000	178,657,000
Stock in FHLB and other restricted stock	2,111,000	N/A	2,393,000	N/A
Accrued interest receivable	1,088,000	1,088,000	1,301,000	1,301,000
Liabilities:				
Deposits	(216,740,000)	(220,647,000)	(215,079,000)	(220,216,000)
FHLB advances	(16,039,000)	(16,750,000)	(25,745,000)	(26,502,000)
Subordinated debt	(7,217,000)	(4,280,000)	(7,217,000)	(6,291,000)
Accrued interest payable	(841,000)	(841,000)	(625,000)	(625,000)

19. OTHER COMPREHENSIVE INCOME

Other comprehensive income (loss) components and related tax effects for the years ended December 31, 2010 and December 31, 2009 are as follows:

	2010	2009
Other comprehensive income (loss):		
Net unrealized holding gains (losses)	\$ 2,566,169	\$ 4,299,565
Reclassification adjustment for other than temporary impairment	27,122	714,000
Reclassification adjustment for (gains) losses realized	<u>(100,982)</u>	<u>20,000</u>
Other comprehensive income (loss) before income tax	2,492,309	5,033,565
Income tax benefit (expense) related to items of other comprehensive income	<u>(996,923)</u>	<u>(2,013,426)</u>
Other comprehensive income (loss), net of tax	<u>\$ 1,495,386</u>	<u>\$ 3,020,139</u>

Accumulated other comprehensive income at December 31, 2010 and December 31, 2009 included \$241,768 and \$1,812,494 respectively of unrealized losses related to securities with other than temporary impairment.

BLUE RIVER BANCSHARES, INC.

SHAREHOLDER INFORMATION

STOCK INFORMATION

The Company's common stock is traded over-the-counter on the bulletin board under the symbol "BRBI.OB."

The Company had 161 Shareholders of Record as of May 13, 2011.

SALE PRICE PER SHARE

Quarter	2010		2009	
	High	Low	High	Low
First quarter	\$ 2.67	\$ 1.66	\$ 4.00	\$ 2.55
Second quarter	2.40	1.80	4.00	2.50
Third quarter	1.80	1.41	3.25	2.62
Fourth quarter	2.25	1.20	2.86	1.88

ANNUAL REPORT

A copy of the Company's annual report is available without charge by writing:

Patrice M. Lima
Vice President
Controller
Blue River Bancshares, Inc.
29 E. Washington Street
Shelbyville, IN 46176

STOCK TRANSFER AGENT

Inquiries regarding stock transfer, registration, lost certificates or changes in name and address should be directed to the stock transfer agent and registrar by writing:

Continental Stock Transfer & Trust Co.
17 Battery Place
New York, NY 10004

INVESTOR INFORMATION

Stockholders, investors, and analysts interested in additional information may contact Russell Breeden, III, Chief Executive Officer, Chairman of the Board and President of Blue River Bancshares, Inc.

Legal Counsel
KRIEG DEVAULT LLP

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3815 River Crossing Pkwy.
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Indianapolis, IN 46240

BLUE RIVER BANCSHARES, INC.

DIRECTORS AND OFFICERS

Board of Directors **Blue River Bancshares, Inc.**

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Chairman of the Board,
Chief Executive Officer
President

Steven R. Abel
Vice Chairman
President, Chief Credit Officer
SCB Bank
Owner, Hoosier Appraisal Service

Wendell L. Bernard
Retired- Former Owner
Bernard Realty, Inc.

Peter G. DePrez
Attorney
Brown, DePrez & Johnson

John Eckart
Commissioner,
Indiana Department of Revenue

Wayne C. Ramsey
Vice President
Lynch & Associates

Robert J. Salyers
Attorney
Salyers, Eiteljorg & Pulce, P.C.

Board of Directors **SCB Bank**

Russell Breeden, III
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Chief Executive Officer,
Blue River Bancshares, Inc.

Steven R. Abel
President, Chief Credit Officer
SCB Bank
Owner, Hoosier Appraisal Service
Secretary, SCB Bank

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Bernard Realty, Inc.

Peter G. DePrez
Attorney
Brown, DePrez & Johnson

Wayne C. Ramsey
Vice President
Lynch & Associates

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Internal Audit and Compliance

Patrice M. Lima
Vice President
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Secretary

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SCB Bank

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President, Chief Credit Officer

Lawrence E. Lux
Executive Vice President, Commercial Lending

Sarita S. Grace
Chief Operating Officer

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Senior Vice President, Chief Financial Officer

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Vice President, Controller

Gregory A. Lanter
Vice President, Commercial Lending

Ronald L. Lanter
Vice President, Commercial Lending

Mel A. Novilla
Vice President, Commercial Lending

Scott D. Sharrett
Vice President, Information Technology

Officers
W.R. Clouse & Associates
A Division of SCB Bank

William R. Clouse
President