Bancorp offers a variety of products designed to attract and retain customers, with the primary focus on building and expanding relationships. At December 31, 2010, deposits totaled $520.3 million. During 2010, deposits decreased by $20.3 million (3.7%). The 2010 change in deposits was comprised of the following: certificates of deposit decreased by $28.4 million (12.5%), checking accounts decreased by $3.0 million (2.1%), money market deposit accounts (MMDA's) increased by $2.9 million (2.6%), while savings accounts increased by $8.2 million (14.5%). During 2010, as a result of carrying excess liquidity, management implemented a strategy that allowed for the reduction in higher cost certificates of deposit. The increase in MMDA and savings balances is a result of customer preferences for liquid investments in the current low interest rate environment.

The Bancorp's borrowed funds are primarily comprised of repurchase agreements and FHLB advances that are used to fund asset growth not supported by deposit generation. At December 31, 2010, borrowed funds totaled $48.6 million compared to $63.0 million at December 31, 2009, a decrease of $14.4 million (22.9%). During 2010, management repaid borrowed funds with excess liquidity. Retail repurchase agreements totaled $16.1 million at December 31, 2010, compared to $15.9 million at December 31, 2009, an increase of $0.2 million (1.2%). FHLB advances totaled $29.0 million, decreasing $9.0 million or 23.7%. In addition, the Bancorp's FHLB line of credit carried a balance of $3.2 million at December 31, 2010, compared to $8.5 million at December 31, 2009. Other short-term borrowings totaled $296 thousand at December 31, 2010, compared to $664 thousand at December 31, 2009.

Liquidity and Capital Resources

The Bancorp's primary goal for funds and liquidity management is to ensure that at all times it can meet the cash demands of its depositors and its loan customers. A secondary purpose of funds management is profit management. Because profit and liquidity are often conflicting objectives, management will maximize the Bank's net interest margin by making adequate, but not excessive, liquidity provisions. Furthermore, funds are managed so that future profits will not be significantly impacted as funding costs increase.

Changes in the liquidity position result from operating, investing and financing activities. Cash flows from operating activities are generally the cash effects of transactions and other events that enter into the determination of net income. The primary investing activities include loan originations, loan repayments, investments in interest bearing balances in financial institutions, dividend receipts and the purchase and maturity of investment securities. Financing activities focus almost entirely on the generation of customer deposits. In addition, the Bancorp utilizes borrowings (i.e., repurchase agreements, FHLB advances and federal funds purchased) as a source of funds.

During 2010, cash and cash equivalents decreased $2.3 million compared to a increase of $1.9 million for 2009. During 2010, the primary sources of cash and cash equivalents were from loan sales and repayments, maturities and sales of securities, FHLB advances, and cash from operating activities. The primary uses of cash and cash equivalents were loan originations, purchase of securities, expenditures for premises and equipment, decrease in deposits, FHLB advance repayments and the payment of common stock dividends. During 2010, cash from operating activities totaled $14.5 million, compared to $1.2 million for 2009. The 2010 increase in cash provided by operating activities was a result of higher net income, having prepaid three years of FDIC assessments in 2009, and ACH prefunding liabilities. Cash inflows from investing activities totaled $19.9 million during 2010, compared to $3.3 million during 2009. The change for the current year was related to a decrease in loan balances, maturities and pay downs of AFS securities, and foreclosed real estate sales. Loan sales totaled $41.4 million for 2010, compared to $60.0 million in 2009. Net cash outflows from financing activities totaled $36.7 million in 2010, compared to net cash outflows of $2.7 million in 2009. The change during 2010 was primarily due to a decrease in deposits. Deposits decreased by $20.3 million during 2010, compared to an increase of $12.4 million for 2009. FHLB advances decreased by $9.0 million during 2010 compared to an $8.0 million increase during 2009. The lower deposit growth and reduction in advance balances was a result of lower funding requirements during 2010. The Bancorp paid dividends on common stock of $2.2 million and $3.4 million during 2010 and 2009, respectively. During 2010, the Bancorp's Board of Directors reduced dividends to build capital and preserve long-term capital strength.

During the third quarter of 2010, the Bancorp opened its twelfth full service banking center in Saint John, Indiana. The new $2.1 million state-of-the-art facility did not have a material impact on operations during 2010. It is expected that the new banking center will provide opportunities to expand market share for the Bancorp's products and services.

Management strongly believes that safety and soundness is enhanced by maintaining a high level of capital. Stockholders' equity totaled $56.1 million at December 31, 2010, compared to $53.1 million at December 31, 2009, an increase of $3 million (5.7%). The increase was a result of $5.2 million in net income for 2010. Additional items increasing stockholders' equity were $151 thousand from the sale of treasury stock, and $36 thousand from stock-based compensation plans. Decreasing stockholders' equity were $314 thousand from the change in the valuation of available-for-sale securities, the Bancorp's declaration of $2.0 million in cash dividends, and $8 thousand from the change in net unrealized items from the Bank's postretirement plans. At December 31, 2010, book value per share was $19.84 compared to $18.83 for 2009.

The Bancorp is subject to risk-based capital guidelines adopted by the Board of Governors of the Federal Reserve System (the FRB), and the Bank is subject to risk-based capital guidelines adopted by the FDIC. As applied to the Bancorp and the Bank, the FRB and FDIC capital requirements are substantially the same. These regulations divide capital into two tiers. The first tier (Tier 1) includes common equity, certain non-cumulative perpetual preferred