OMB Control Number 1505-0222

CPP **ANNUAL USE OF CAPITAL SURVEY - 2010**

NAME OF INSTITUTION
(Include Holding Company Where Applicable)

Community Bank Shares of Indiana, Inc.

Person to be contacted regarding this report:	Paul Chrisco	RSSD: (For Bank Holding Companies)	2356073
UST Sequence Number:	1208	Holding Company Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	19,468,000	FDIC Certificate Number: (For Depository Institutions)	
CPP/CDCI Funds Repaid to Date:	0	Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	May 29, 2009	City:	New Albany
Date Repaid[1]:	N/A	State:	Indiana

[1]If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

☒	Increase lending or reduce lending less than otherwise would have occurred.	While total loans declined after the Company received the CPP capital, the decline slowed considerably after the Company received its CPP allocation on 5/29/09. Total loans declined by $53.8 million from 12/31/08 to 6/30/09, but only $30.3 million from 1/1/10 to 12/31/10.
☐	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	
☒	Increase securities purchased (ABS, MBS, etc.).	The Company has increased its investment securities substantially from $142.6 million at 6/30/09 (CPP received on 5/29/09) to $204.2 million at 12/31/10.

☐	Make other investments	
☐	Increase reserves for non-performing assets	
☒	Reduce borrowings	In 2010, the Company reduced its borrowings (exclusive of deposit accounts) by a total of $46.1 million.
☒	Increase charge-offs	The Company continues to have higher-than-average loan charge-offs which totaled $8.7 million in 2010.
☐	Purchase another financial institution or purchase assets from another financial institution	
☒	Held as non-leveraged increase to total capital	During 2010 the Company's Tier 1 leverage ratio increased from 8.6% to 9.1% and its total risk-based capital ratio increased from 13.1% to 14.7%.

What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

Had the Company not received the CPP funds it would have had to take additional steps to obtain capital, all of which would have been more costly than the CPP option. Capital availability for small community bank holding companies is available only at extremely dilutive levels to existing shareholders. Also, the Company may have been forced to take more drastic action to shrink our balance sheet and buoy regulatory capital which would most likely have necessitated further staffing reductions and disposition of assets. These actions, while helping to preserve capital, would not have been in the best interest of our shareholders over a long-term basis as our franchise value and employee morale would most likely have deteriorated.

What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

Without the CPP funds the Company would have purchased much less in mortgage-backed securities during 2010. While the primary consideration in the purchase of these securities was credit quality, the Company was cognizant of the fact that the purchase of these securities provides liquidity to the fragile national housing market. Also, the Company may have had to curtail lending even further than what actually occurred and may have had to consider the sale of pools of loans in order to generate capital and liquidity.

While the Company's Allowance for Loan and Lease Losses is established according to U.S. generally accepted accounting principles, the Company's capital position would have been severely impaired by the large Provision for Loan Losses incurred by the Company during 2009 and 2010. The CPP funds provided the Company with the capital strength to address its loan quality issues directly by appropriately reserving for impaired credits. Consequently, the Company's loan quality situation has stabilized, problem loan relationships are being resolved, and loan demand is slowly growing.

With the capital support provided by the CPP funds, the Company was able to prepay a substantial amount of high-cost borrowings, thereby reducing assets and improving its capital ratios. This also allowed the Company to substantially improve its net interest margin, which will allow the Company to grow capital through net income at a faster rate in the future. This should have the impact of improving the Company's stock price over time, which will have the added benefit of increasing the value of the American taxpayer's investment in the Company.

Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.