



ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Community Bank Shares of Indiana, Inc.

Person to be contacted regarding this report:	Paul Chrisco
UST Sequence Number:	1208
CPP Funds Received:	19,468,000
CPP Funds Repaid to Date:	0
Date Funded (first funding):	May 29, 2009
Date Repaid ¹ :	N/A

RSSD: (For Bank Holding Companies)	2356073
Holding Company Docket Number: (For Thrift Holding Companies)	
FDIC Certificate Number: (For Depository Institutions)	
City:	New Albany
State:	Indiana

¹If 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). To answer that question, Treasury is seeking responses that describe generally how the CPP 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 investment was deployed or how many CPP 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 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 funds were outstanding).

<input checked="" type="checkbox"/>	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 \$34.3 million from 7/1/09 to 12/31/09.
<input type="checkbox"/>	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.).	
<input checked="" type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	During 2009Q2 when the CPP funds were received, the Company's total mortgage-backed securities increased by \$19.8 million, helping to provide liquidity to the national housing market. The Company also increased its net position in securities issued by municipalities by \$15.0 million.

<input type="checkbox"/>	Make other investments	
<input checked="" type="checkbox"/>	Increase reserves for non-performing assets	During 2009Q2 when the CPP funds were received, the Company increased its Allowance for Loan and Lease Losses by \$9.6 million to \$18.4 million at June 30, 2009.
<input checked="" type="checkbox"/>	Reduce borrowings	During 2009 the Company reduced Other Borrowed Money by \$56.1 million, significantly improving the Company's leverage capital ratio.
<input checked="" type="checkbox"/>	Increase charge-offs	The Company increased net charge-offs to average loans from 0.10% in 2007 and 0.58% in 2008 to 1.72% during 2009.
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input checked="" type="checkbox"/>	Held as non-leveraged increase to total capital	During 2009 the Company's Tier 1 leverage ratio increased from 7.55% to 8.58% and its total risk-based capital ratio increased from 10.72% to 13.14%.

What actions were you able to avoid because of the capital infusion of CPP 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.

For example, the Company may have had to consider the sale of assets at depressed prices, including loans, in order to reduce total assets and risk-weighted assets to improve the Company's capital ratios.

The Company may have considered issuing stock at very dilutive levels in order to raise capital, which would have been detrimental to shareholders, many of which live in the area in which the bank operates.

While the Company did reduce staff during 2009, further staff cuts would have been likely had the Company not received the CPP funds.

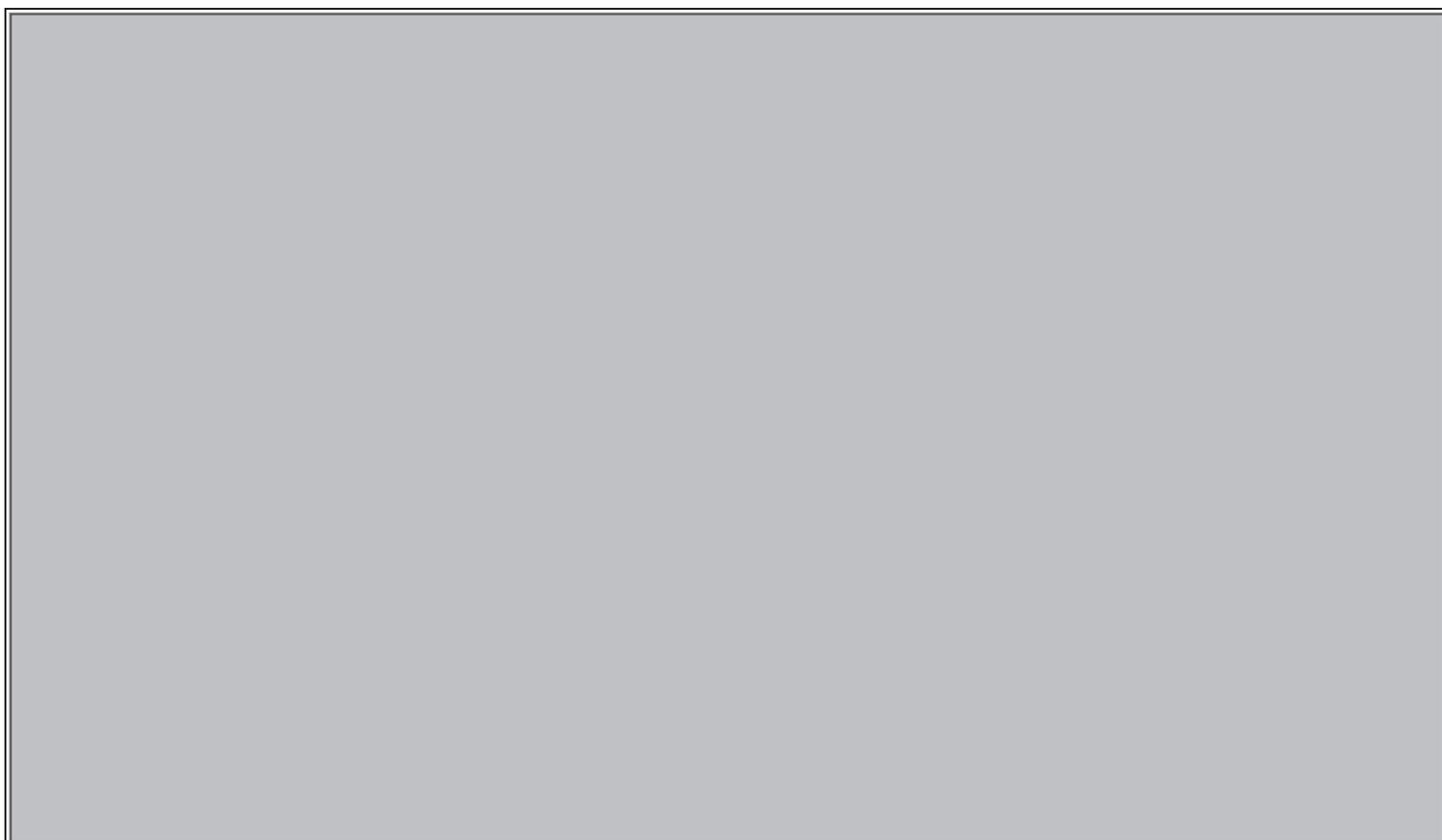
What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

Without the CPP funds the Company would have purchased much less in mortgage-backed securities during 2009. 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 the second quarter of 2009. 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 funds.



According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1505-0222. The time required to complete this information collection is estimated to average 80 hours per response.