



Indiana
Business Bank SM

Focused. Responsive. Experienced.



April 6, 2005

Dear Fellow Shareholders,

It is my pleasure to be writing your bank's first shareholder letter. Although our enclosed financial statements reflect only our first six weeks of operations, the opening of Indiana Business Bank on November 17, 2004 represents 18 months of commitment and determination from our Executive Management team, our 18 Organizers and Directors, the efforts of our investment bankers and the support and confidence of our 253 initial shareholders. The banking industry has high barriers to entry and to be the only group to establish a new bank in the state of Indiana during 2004 is very gratifying.

Our statement of operations for the period from November 17, 2004 to December 31, 2004 indicates an operating loss of \$1,251,410. This includes organizational expenses of \$1,063,007 and an operating loss since opening of \$188,403. We look forward to the time when we can report profits. As expected, our balance sheet at year end was highly liquid, with the majority of assets invested in government securities.

Our staff is very encouraged by the community's response to our initial marketing efforts. As I write this letter our growth has exceeded our expectations. Additionally, our stock has been trading over the counter under the symbol IBBK.ob. Since November, over 30,000 shares have traded at prices in excess of our initial offering price.

I would like to make a special offer to our shareholders interested in an attractive return on their cash balances. Please review the Founders' CD offer printed on the top half of the proxy card. I encourage all our shareholders to help Indiana Business Bank grow by becoming clients as well as investors.

I would like to personally thank each and every shareholder. Because of you, Indiana Business Bank is a reality. I encourage you to contact me directly with questions and/or comments. I can be reached at (317) 218-2185 or jyoung@indianabusinessbank.com.

Sincerely,

A handwritten signature in black ink, appearing to read 'James S. Young'.

James S. Young
President & CEO

Indiana Business Bank

Accountants' Report and Financial Statements

December 31, 2004

Indiana Business Bank

December 31, 2004

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Independent Accountants' Report

Board of Directors
Indiana Business Bank
Indianapolis, Indiana

We have audited the accompanying balance sheet of Indiana Business Bank as of December 31, 2004, and the related statement of operations, stockholders' equity and cash flow for the period from November 17, 2004 to December 31, 2004. 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 audit.

We conducted our audit 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 audit provides 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 Indiana Business Bank as of December 31, 2004, and the results of its operations and its cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

Indianapolis, Indiana
March 15, 2005

Indiana Business Bank

Balance Sheet December 31, 2004

Assets

Cash and due from banks	\$	143,468
Available-for-sale securities		9,348,744
Securities purchased under agreements to resell		2,727,922
Loans, net of allowance for loan losses of \$8,653		568,214
Furniture and equipment, net of accumulated depreciation of \$9,704		454,169
Interest receivable and other assets		<u>51,848</u>
Total assets	\$	<u>13,294,365</u>

Liabilities

Deposits		
Demand	\$	574,955
Savings		7,412
Time		<u>155,044</u>
Total deposits		737,411
Interest payable and other liabilities		<u>35,559</u>
Total liabilities		<u>772,970</u>

Stockholders' Equity

Common stock, \$1 par value; authorized 1,700,000 shares; 1,484,100 shares issued and outstanding		1,484,100
Additional paid-in capital		12,288,705
Accumulated deficit		<u>(1,251,410)</u>
Total stockholders' equity		<u>12,521,395</u>
Total liabilities and stockholders' equity	\$	<u>13,294,365</u>

Indiana Business Bank
Statement of Operations
From November 17, 2004 to December 31, 2004

Interest Income	
Loans	\$ 1,066
Securities - taxable	<u>29,946</u>
Total interest income	31,012
Interest Expense - deposits	<u>788</u>
Net Interest Income	30,224
Provision for Loan Losses	<u>8,653</u>
Net Interest Income After Provision for Loan Losses	<u>21,571</u>
Noninterest Income	<u>211</u>
Noninterest Expense	
Salaries and employee benefits	117,589
Occupancy expense	14,840
Data processing fees	19,036
Professional fees	15,217
Organizational expense	1,063,007
Other	<u>43,503</u>
Total noninterest expense	<u>1,273,192</u>
Net Loss	<u>\$ (1,251,410)</u>

Indiana Business Bank
Statement of Stockholders' Equity
From November 17, 2004 to December 31, 2004

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Sale of stock	1,484,100	\$ 1,484,100	\$ 12,288,705		\$ 13,772,805
Comprehensive loss	_____	_____	_____	\$ (1,251,410)	(1,251,410)
Balance, December 31, 2004	<u>1,484,100</u>	<u>\$ 1,484,100</u>	<u>\$ 12,288,705</u>	<u>\$ (1,251,410)</u>	<u>\$ 12,521,395</u>

Indiana Business Bank
Statement of Cash Flows
From November 17, 2004 to December 31, 2004

Operating Activities

Net loss	\$ (1,251,410)
Items not requiring (providing) cash	
Depreciation	9,704
Provision for loan losses	8,653
Discount accretion on securities	(24,356)
Changes in	
Interest receivable and other assets	(51,848)
Interest payable and other liabilities	<u>35,559</u>
Net cash used in operating activities	<u>(1,273,698)</u>

Investing Activities

Purchases of available-for-sale securities	(19,565,388)
Proceeds from maturities of available-for-sale securities	10,241,000
Purchase of premises and equipment	(463,873)
Net changes in	
Loans	(576,867)
Securities purchased under agreements to resell	<u>(2,727,922)</u>
Net cash used in investing activities	<u>(13,093,050)</u>

Financing Activities

Net increase in demand deposits and savings accounts	582,367
Net increase in certificates of deposit	155,044
Sale of stock	<u>13,772,805</u>
Net cash provided by financing activities	<u>14,510,216</u>

Increase in Cash and Due From Banks 143,468

Cash and Due From Banks, Beginning of Year —

Cash and Due From Banks, End of Year \$ 143,468

Supplemental Cash Flows Information

Interest paid	\$ 638
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Indiana Business Bank

Notes to Financial Statements

December 31, 2004

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Bank commenced operations on November 17, 2004. The Bank is primarily engaged in providing a full range of banking and financial services to corporate customers in Marion and surrounding counties of Indiana. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties.

Securities

Available-for-sale securities, which include any security for which the Bank has no immediate plan to sell but which may be sold in the future, are carried at fair value. Unrealized gains and losses are recorded, net of related income tax effects, in other comprehensive income.

Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for any charge-offs, the allowance for loan losses, any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Generally, loans are placed on non-accrual status at ninety days past due and interest is considered a loss, unless the loan is well-secured and in the process of collection.

Indiana Business Bank

Notes to Financial Statements

December 31, 2004

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The Bank estimated its allowance for loan losses at December 31, 2004 at 1.50% of total loans outstanding. Management considers this to be a reasonable estimate at this time due to the lack of seasoning of the loan portfolio. In future years, management will incorporate historical loss and other information into its determination of the adequacy of the allowance for loan losses.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogenous loans will be collectively evaluated for impairment. Accordingly, the Bank will not separately identify individual consumer and residential loans for impairment measurements.

Furniture and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets.

Indiana Business Bank

Notes to Financial Statements

December 31, 2004

Stock Options

The Bank has a stock-based employee compensation plan, which is more fully described in Note 10. The Bank accounts for stock option grants in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, and, accordingly, recognizes no compensation expense for the stock option grants as all options are granted under the plan had an exercise price equal to or greater than the fair value of the underlying common stock at the date of grant. The following table illustrates the effect on net income and earnings per share if the Bank had applied the fair value provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

Net loss, as reported	\$ 1,251,410
Less: Total stock-based employee compensation cost determined under the fair value based method	<u>14,796</u>
Pro forma net loss	<u>\$ 1,266,206</u>

In December 2004, the Financial Accounting Standards Board (FASB) issued an amendment to SFAS 123 (SFAS 123R) which eliminates the ability to account for share-based compensation transactions using Accounting Principles Board Opinion No. 25 and generally requires that such transactions be accounted for using a fair value-based method. SFAS 123R will be effective for the Bank beginning January 1, 2006. SFAS 123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. The cumulative effect of initially applying this Statement, if any, is recognized as of the required effective date.

As of the required effective date, the Bank will apply SFAS 123R using either the modified version of prospective application or the modified version of retrospective application. Under prospective transition method, compensation cost is recognized on or after the required effective date for the portion of outstanding awards for which the requisite service has not yet been rendered, based on the grant-date fair value of those awards calculated under SFAS 123 for either recognition or pro forma disclosures. For periods before the required effective date, a company may elect to apply a modified version of retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods by SFAS 123.

The Bank is currently evaluating the effect of the recognition and measurement provisions of SFAS 123R but believes the adoption of SFAS 123R will not result in a material impact on the Company's results of operations or financial condition.

Indiana Business Bank
Notes to Financial Statements
December 31, 2004

Income Taxes

Deferred tax assets and liabilities are recognized for the tax effects of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

Note 2: Restriction on Cash and Due From Banks

The Bank is required to maintain reserve funds on deposit with the Federal Reserve Bank. The reserve required at December 31, 2004 was \$25,000.

Note 3: Securities

At December 31, 2004, the Bank's available-for-sale securities, consisting of federal agencies, had an amortized cost of \$9,348,744 and no gross unrealized gains or losses.

The amortized cost and fair value of available-for-sale securities at December 31, 2004, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Within one year	<u>\$ 9,348,744</u>	<u>\$ 9,348,744</u>

Note 4: Securities Purchased Under Agreements to Resell

The Bank enters into purchases of securities under agreements to resell. The amounts advanced under these agreements represent short-term loans and are reflected as a receivable in the balance sheet. The securities underlying the agreements are book-entry securities. During the period, the securities were delivered by appropriate entry into the Bank's account maintained at a third-party custodian's account designated by the Bank under a written custodial agreement that explicitly recognizes the Bank's interest in the securities. At December 31, 2004, these agreements matured daily. The Bank's policy requires that all securities purchased under agreements to resell be fully collateralized.

Indiana Business Bank
Notes to Financial Statements
December 31, 2004

Note 5: Loans and Allowance for Loan Losses

Loans at December 31, include:

	2004
Commercial loans	\$ 576,867
Less	
Allowance for loan losses	(8,653)
Net loans	\$ 568,214

During 2004, the Bank provided \$8,653 to the allowance for loan losses and experienced no charge-offs.

Note 6: Furniture and Equipment

	2004
Autos	\$ 12,720
Furniture and equipment	451,153
Total cost	463,873
Accumulated depreciation and amortization	(9,704)
Net	\$ 454,169

Note 7: Interest-Bearing Time Deposits

Interest-bearing time deposits in denominations of \$100,000 or more were \$100,000 on December 31, 2004.

At December 31, 2004, the scheduled maturities of time deposits are as follows:

2005		\$ 20,000
2006		100,000
2007		20,000
2008		—
2009		15,044
		\$ 155,044

Indiana Business Bank
Notes to Financial Statements
December 31, 2004

Note 8: Income Taxes

During 2004, the Bank had no income taxes currently payable and generated a deferred tax asset of \$459,620. An increase in the deferred tax asset valuation allowance of \$459,620 was recorded in 2004.

A reconciliation of income tax expense at the statutory rate to the Bank's actual income tax expense is shown below:

	2004
Computed at the statutory rate (34%)	\$ (425,479)
Increase (decrease) resulting from	
Nondeductible expenses	888
State income taxes	(35,029)
Deferred tax asset valuation allowance	459,620
Actual tax expense	\$ 0

The tax effects of temporary differences related to deferred taxes shown on the balance sheet were:

	2004
Deferred tax assets	
Allowance for loan losses	\$ 3,185
Net operating loss carryforward	94,894
Organizational costs	381,459
	479,538
Deferred tax liabilities	
Prepays	(13,499)
Depreciation	(6,419)
	(19,918)
Valuation allowance	
Increase during the period	(459,620)
Net deferred tax asset	\$ 0

As of December 31, 2004, the Bank had approximately \$257,830 of federal and state net operating loss carryforwards which will expire in 2024.

Indiana Business Bank

Notes to Financial Statements

December 31, 2004

Note 9: 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 possibly 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 established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below). Management believes, as of December 31, 2004, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2004, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios are also presented in the table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2004						
Total capital (to risk-weighted assets)	\$ 12,530	358.2%	\$ 280	8.0%	\$ 350	10.0%
Tier I capital (to risk-weighted assets)	12,521	357.9	140	4.0	210	6.0
Tier I capital (to average assets)	12,521	96.0	522	4.0	652	5.0

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. The Bank is restricted from declaring dividends in its first three years of operation.

Indiana Business Bank
Notes to Financial Statements
December 31, 2004

Note 10: Stock Option Plan

The Bank has a fixed option plan under which the Bank may grant options to selected employees and directors for up to 160,000 shares of common stock. The exercise price of each option is intended to equal the fair value of the Bank's stock on the date of grant. An option's maximum term is ten years.

During 2004, the Bank granted 94,600 options to certain directors and employees at an exercise price of \$10. The options vest over five years, accordingly no options were exercisable at December 31, 2004.

The fair value of options granted is estimated on the date of the grant using an option-pricing model with the following weighted-average assumptions:

	2004
Dividend yield	0%
Volatility factors of expected market price of common stock	1.00%
Risk-free interest rates	4.01%
Expected life of options	8
Weighted-average fair value of options granted during the year	\$ 2.74

Note 11: Stock Warrants

The Bank issued 90,000 stock warrants to certain organizers of the Bank. The warrants, issued in 2004, entitled the holder to purchase additional shares of the Bank's common stock at the offering price of \$10 per share for ten years, expiring September 2014.

Note 12: Lease

The Bank leases the space which houses its present operations. The lease expires March 31, 2009. Rental expense for this lease was \$14,015 for the period ended December 31, 2004.

Future minimum lease payments under operating leases are:

	Operating Lease
2005	\$ 114,782
2006	116,382
2007	117,982
2008	119,581
2009	29,995
Total minimum lease payments	\$ 498,722

Indiana Business Bank
Notes to Financial Statements
December 31, 2004

Note 13: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the footnote regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnote on commitments and credit risk.

Note 14: Commitments and Credit Risk

Letters of Credit

Letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. At December 31, 2004, there were no letters of credit outstanding.

Lines of Credit

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

At December 31, 2004, the Bank had granted unused lines of credit to borrowers aggregating approximately \$673,000.

Salary Continuation Agreements

The Bank has entered into agreements with two officers which provide for salary continuation for a 12 month period under certain circumstances, primarily related to change of control of the Bank, as defined. Under the terms of the agreements, these payments could occur if, following a change of control, such officers are terminated other than for cause or unreasonable changes are made in their employment relationships. These agreements terminate in November 2007.