



Indiana
Business Bank SM

Focused. Responsive. Experienced.

2005 ANNUAL REPORT

INDIANA BUSINESS BANK 2005 ANNUAL REPORT TO SHAREHOLDERS

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PROFILE

Indiana Business Bank is a state-chartered, locally-owned and managed commercial bank formed in 2004 for the purpose of providing highly-personalized banking services for small to medium-sized businesses, their owners and professional services firms from a single location in Indianapolis, Indiana. Additional information concerning the Bank can be found on our website: <http://www.indianabusinessbank.com>.

SHAREHOLDER INFORMATION

MARKET INFORMATION

<u>Quarterly Periods</u>	<u>High Bid</u>	<u>Low Bid</u>
Year Ended December 31, 2005:		
First quarter	\$ 11.75	\$ 10.50
Second quarter	\$ 11.75	\$ 10.25
Third quarter	\$ 11.00	\$ 9.75
Fourth quarter	\$ 10.35	\$ 9.50

TRANSFER AGENT

CONTINENTAL STOCK TRANSFER

17 Battery Place
8th Floor
New York, NY 10004

LISTED ON

OTC BULLETIN BOARD

SYMBOL: IBBK.OB

MARKET MAKERS

David A. Noyes & Company
Monroe Securities, Inc.
Hill Thompson, Magid & Co., Inc.
Donnelly, Penman & Partners
UBS Securities



Indiana
Business BankSM

April 26, 2006

Dear Fellow Shareholders:

Our first year of operations has been very exciting and gratifying, and our future looks equally positive. We have attracted quality clients, grown our balance sheet, loan portfolio, and deposit base. The momentum we built throughout 2005 has continued into the first quarter of 2006. Additionally, our competitive Indianapolis banking market has witnessed further changes that should benefit our focused, niche business model.

Our balance sheet expanded by \$22,946,629 during the year, as net loans grew by \$23,703,528, and deposits grew by \$24,025,825. Our operating deficit of \$1,418,665 for 2005 compares favorably to the projections in our original business plan. The growth in our business has continued into the first quarter, and we continue to achieve performance ahead of plan. It is our goal to be able to report profitability, on a monthly basis, by the end of this year.

Our banking market continues to change in ways that we believe will benefit your bank. The largest locally owned institution, which has the number 3 market share position, has announced that it will be merged into an out of state financial institution. Additionally, the institution with the number 4 market share position has moved its small business lending decision making out of state. These changes mean that institutions that command more than 2/3 of the \$24.9 billion Indianapolis banking market make decisions regarding locally owned Indiana businesses out of state. We believe that this environment is fertile ground for a locally owned and managed business bank. I feel confident that with the continued efforts of our employees and our board of directors, the future is bright for Indiana Business Bank.

The support of our investor base is also important to our ongoing success. If you are a small business owner in Central Indiana, I urge you to contact me regarding your banking needs. It is my goal for the balance of 2006 and beyond to keep you well informed on the progress of your bank. You can expect a quarterly update on our performance, beginning in late July of this year. In the mean time, if you have any questions regarding the bank, I invite you to call me directly at 317-218-2185, or jyoung@indianabusinessbank.com.

Thank you for your support.

Sincerely,

James S. Young
President & CEO

Independent Accountants' Report

Board of Directors
Indiana Business Bank
Indianapolis, Indiana

We have audited the accompanying balance sheets of Indiana Business Bank as of December 31, 2005 and 2004, and the related statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank'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 Indiana Business Bank as of December 31, 2005 and 2004, 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.

BKD, LLP

Indianapolis, Indiana
March 22, 2006

Indiana Business Bank
Balance Sheets
December 31, 2005 and 2004

	2005	2004
Assets		
Cash and due from banks	\$ 1,397,344	\$ 143,468
Federal funds sold	6,932,000	—
Securities purchased under agreements to resell	<u>5,947</u>	<u>2,727,922</u>
Total cash and cash equivalents	8,335,291	2,871,390
Available-for-sale securities	2,972,499	9,348,744
Loans, net of allowance for loan losses of \$369,620 and \$8,653	24,271,742	568,214
Furniture and equipment, net of accumulated depreciation of \$134,654 and \$9,704	378,756	454,169
Interest receivable and other assets	<u>282,706</u>	<u>51,848</u>
Total assets	<u>\$ 36,240,994</u>	<u>\$ 13,294,365</u>
Liabilities		
Deposits		
Demand	\$ 12,484,938	\$ 574,955
Savings	145,769	7,412
Time	<u>12,132,519</u>	<u>155,044</u>
Total deposits	24,763,226	737,411
Securities sold under agreements to repurchase	251,268	—
Interest payable and other liabilities	<u>144,371</u>	<u>35,559</u>
Total liabilities	<u>25,158,865</u>	<u>772,970</u>
Stockholders' Equity		
Common stock, \$1 par value; authorized 2,000,000 shares; 1,484,100 shares issued and outstanding	1,484,100	1,484,100
Additional paid-in capital	12,288,705	12,288,705
Accumulated deficit	(2,670,075)	(1,251,410)
Accumulated other comprehensive loss	<u>(20,601)</u>	<u>—</u>
Total stockholders' equity	<u>11,082,129</u>	<u>12,521,395</u>
Total liabilities and stockholders' equity	<u>\$ 36,240,994</u>	<u>\$ 13,294,365</u>

Indiana Business Bank
Statements of Operations
Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Interest Income		
Loans	\$ 808,662	\$ 1,066
Securities - taxable	111,807	29,946
Federal funds sold	<u>264,456</u>	<u>—</u>
Total interest income	1,184,925	31,012
Interest Expense - deposits	<u>278,892</u>	<u>788</u>
Net Interest Income	906,033	30,224
Provision for Loan Losses	<u>360,967</u>	<u>8,653</u>
Net Interest Income After Provision for Loan Losses	<u>545,066</u>	<u>21,571</u>
Noninterest Income	<u>29,291</u>	<u>211</u>
Noninterest Expense		
Salaries and employee benefits	1,140,571	117,589
Occupancy expense	124,538	14,840
Equipment expense	139,270	9,349
Data processing fees	140,628	19,036
Professional fees	122,931	15,217
Marketing expense	74,599	4,420
Organizational expense	147	1,063,007
Other	<u>250,338</u>	<u>29,734</u>
Total noninterest expense	<u>1,993,022</u>	<u>1,273,192</u>
Net Loss	<u>\$ (1,418,665)</u>	<u>\$ (1,251,410)</u>

Indiana Business Bank
Statements of Stockholders' Equity
Years Ended December 31, 2005 and 2004

	Shares Outstanding	Amount	Comprehensive Loss	Accumulated Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Sale of stock	1,484,100	\$ 1,484,100		\$ 12,288,705			\$ 13,772,805
Comprehensive loss			\$ <u>(1,251,410)</u>		\$ (1,251,410)		<u>(1,251,410)</u>
Balances, December 31, 2004	1,484,100	1,484,100		12,288,705	(1,251,410)		12,521,395
Net loss			\$ (1,418,665)		(1,418,665)		(1,418,665)
Unrealized losses on available-for-sale securities			(34,113)			\$ (34,113)	
Tax benefit			<u>13,512</u>			<u>13,512</u>	
Total other comprehensive loss			<u>(20,601)</u>			(20,601)	(20,601)
Comprehensive loss			\$ <u>(1,439,266)</u>				
Balances, December 31, 2005	<u>1,484,100</u>	<u>\$ 1,484,100</u>		<u>\$ 12,288,705</u>	<u>\$ (2,670,075)</u>	<u>\$ (20,601)</u>	<u>\$ 11,082,129</u>

Indiana Business Bank
Statements of Cash Flows
Years Ended December 31, 2005 and 2004

	2005	2004
Operating Activities		
Net loss	\$ (1,418,665)	\$ (1,251,410)
Items not requiring (providing) cash		
Depreciation	124,950	9,704
Provision for loan losses	360,967	8,653
Discount accretion on securities	(47,688)	(24,356)
Changes in		
Interest receivable and other assets	(230,858)	(51,848)
Interest payable and other liabilities	<u>108,812</u>	<u>35,559</u>
Net cash used in operating activities	<u>(1,102,482)</u>	<u>(1,273,698)</u>
Investing Activities		
Purchases of available-for-sale securities	(12,331,668)	(19,565,388)
Proceeds from maturities of available-for-sale securities	18,735,000	10,241,000
Purchase of premises and equipment	(49,537)	(463,873)
Net change in loans	<u>(24,064,495)</u>	<u>(576,867)</u>
Net cash used in investing activities	<u>(17,710,700)</u>	<u>(10,365,128)</u>
Financing Activities		
Net increase in demand deposits and savings accounts	12,048,340	582,367
Net increase in certificates of deposit	11,977,475	155,044
Net increase in securities sold under purchase agreements	251,268	—
Sale of stock	<u>—</u>	<u>13,772,805</u>
Net cash provided by financing activities	<u>24,277,083</u>	<u>14,510,216</u>
Increase in Cash and Cash Equivalents	5,463,901	2,871,390
Cash and Cash Equivalents, Beginning of Year	<u>2,871,390</u>	<u>—</u>
Cash and Cash Equivalents, End of Year	<u>\$ 8,335,291</u>	<u>\$ 2,871,390</u>
Supplemental Cash Flows Information		
Interest paid	\$ 243,722	\$ 638

Indiana Business Bank

Notes to Financial Statements

December 31, 2005 and 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.

Cash and Cash Equivalents

The Bank considers all liquid investments with original maturities of three months or less to be cash equivalents.

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, 2005 and 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, 2005 at 1.5% 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, 2005 and 2004

Stock Options

The Bank has a stock-based employee compensation plan, which is more fully described in Note 12. 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 if the Bank had applied the fair value provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

	2005	2004
Net loss, as reported	\$ 1,418,665	\$ 1,251,410
Plus: Total stock-based employee compensation cost determined under the fair value based method	68,470	9,242
Proforma net loss	\$ 1,487,135	\$ 1,260,652

In December 2004, the Financial Accounting Standards Board (FASB) issued a revision 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, the Bank 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 Bank's results of operations or financial condition.

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.

Indiana Business Bank
Notes to Financial Statements
December 31, 2005 and 2004

Reclassifications

Certain reclassifications have been made to the 2004 financial statements to conform to the 2005 financial statement presentation. These reclassifications had no effect on net income.

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, 2005 was \$25,000.

Note 3: Securities

	2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U. S. Government Agencies	\$ <u>2,993,100</u>	\$ <u>—</u>	\$ <u>20,601</u>	\$ <u>2,972,499</u>
	2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U. S. Government Agencies	\$ <u>9,348,744</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>9,348,744</u>

The amortized cost and fair value of securities available for sale at December 31, 2005, 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	\$ 2,493,685	\$ 2,477,500
One to five years	<u>499,415</u>	<u>494,999</u>
Totals	\$ <u>2,993,100</u>	\$ <u>2,972,499</u>

The carrying value of securities pledged as collateral to secure repurchase agreements was \$495,400 at December 31, 2005. There were no securities pledged at December 31, 2004.

Indiana Business Bank
Notes to Financial Statements
December 31, 2005 and 2004

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments was \$2,972,499 at December 31, 2005, which is approximately 100% of the Bank's available-for-sale investment portfolio. These declines primarily resulted from recent increases in market interest rates.

Based on evaluation of available evidence, including recent changes in market interest rates, management believes the declines in fair value for these securities are temporary.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

The following table shows our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2005:

Description of Securities	Less than 12 Months	
	Fair Value	Unrealized Losses
U. S. Government Agencies	\$ <u>2,972,499</u>	\$ <u>20,601</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, 2005 and 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, 2005 and 2004

Note 5: Loans and Allowance for Loan Losses

Loans at December 31, include:

	2005	2004
Commercial loans	\$ 22,693,236	\$ 576,867
Other consumer loans	<u>1,948,126</u>	<u>—</u>
Total loans	24,641,362	576,867
Less: Allowance for loan losses	<u>(369,620)</u>	<u>(8,653)</u>
Net loans	<u>\$ 24,271,742</u>	<u>\$ 568,214</u>

During 2005 and 2004, the Bank provided \$360,967 and \$8,653 to the allowance for loan losses and experienced no charge-offs.

Note 6: Furniture and Equipment

	2005	2004
Autos	\$ 25,440	\$ 12,720
Furniture and equipment	481,690	451,153
Leasehold improvements	<u>6,280</u>	<u>—</u>
Total cost	513,410	463,873
Accumulated depreciation and amortization	<u>(134,654)</u>	<u>(9,704)</u>
Net	<u>\$ 378,756</u>	<u>\$ 454,169</u>

Note 7: Interest-Bearing Time Deposits

Interest-bearing time deposits in denominations of \$100,000 or more were \$5,539,439 on December 31, 2005.

At December 31, 2005, the scheduled maturities of time deposits are as follows:

2006		\$ 7,581,361
2007		1,506,578
2008		2,930,000
2009		<u>114,580</u>
		<u>\$ 12,132,519</u>

Indiana Business Bank
Notes to Financial Statements
December 31, 2005 and 2004

Note 8: Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase consist of an obligation of the Bank to another party. The obligations are secured by various securities and such collateral is held by another financial institution. The maximum amount of outstanding agreements at any month end during 2005 totaled \$402,217 and the average of such agreements totaled \$201,674 for 2005. The agreements at December 31, 2005 mature daily.

Note 9: Income Taxes

During 2005 and 2004, the Bank had no income taxes currently payable and generated a deferred tax asset of \$548,380 and \$459,620. An increase in the deferred tax asset valuation allowance of \$548,380 and \$459,620 was recorded in 2005 and 2004.

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

	2005	2004
Computed at the statutory rate (34%)	\$ (482,348)	\$ (425,479)
Increase (decrease) resulting from		
Nondeductible expenses and other	4,589	888
State income taxes	(70,620)	(35,029)
Deferred tax asset valuation allowance	548,379	459,620
Actual tax expense	\$ —	\$ —

Indiana Business Bank
Notes to Financial Statements
December 31, 2005 and 2004

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

	2005	2004
Deferred tax assets		
Allowance for loan losses	\$ 101,997	\$ 3,185
Net operating loss carryforward	646,024	94,894
Organizational costs	322,064	381,459
Other	11,211	—
	1,081,296	479,538
Deferred tax liabilities		
Prepays	(25,470)	(13,499)
Depreciation	(47,826)	(6,419)
	(73,296)	(19,918)
Valuation allowance		
Beginning balance	(459,620)	—
Increase during the period	(548,380)	(459,620)
Ending balance	(1,008,000)	(459,620)
Net deferred tax asset	\$ —	\$ —

As of December 31, 2005 and 2004, the Bank had approximately \$1,743,000 and \$257,800 of federal and state net operating loss carryforwards, which will expire beginning in 2024.

Note 10: 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, 2005, that the Bank meets all capital adequacy requirements to which it is subject.

Indiana Business Bank

Notes to Financial Statements

December 31, 2005 and 2004

As of December 31, 2005 and 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, 2005						
Total capital (to risk-weighted assets)	\$ 11,387	46.6%	\$ 1,956	8.0%	\$ 2,445	10.0%
Tier I capital (to risk-weighted assets)	11,082	45.3	978	4.0	1,467	6.0
Tier I capital (to average assets)	11,082	34.7	1,278	4.0	1,597	5.0
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.

Note 11: Defined Contribution Plan

The Bank has a 401(k) profit-sharing plan covering substantially all employees. Employees may contribute up to 100% of their compensation with the Bank matching 100% of the employee's contribution on the first 6% of the employee's compensation, which amounted to expense of \$49,698 in 2005. The Company also provides a discretionary profit-sharing contribution that is determined annually by management.

Note 12: 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.

Indiana Business Bank

Notes to Financial Statements

December 31, 2005 and 2004

During 2005 and 2004, the Bank granted 4,650 and 94,600 options to certain directors and employees at an exercise price of \$11.55 and \$10.00, respectively. The options vest over periods ranging from three to five years.

A summary of the status of the plan at December 31, 2005 and 2004, and changes during the years then ended is presented below:

	2005		2004	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding, beginning of year	94,600	\$ 10.00	—	
Granted	4,650	11.55	94,600	\$ 10.00
Exercised	—		—	
Forfeited	9,000	10.00	—	
Expired	—		—	
Outstanding, end of year	<u>90,250</u>	\$ 10.08	<u>94,600</u>	\$ 10.00
Options exercisable, end of year	<u>17,867</u>		<u>—</u>	

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:

	2005	2004
Dividend yield	0%	0%
Volatility factors of expected market price of common stock	1.00%	1.00%
Risk-free interest rates	3.85%	4.01%
Expected life of options	5	8
Weighted-average fair value of options granted during the year	\$ 2.02	\$ 2.74

The following table summarizes information about stock options under the plan outstanding at December 31, 2005:

Range of Exercise Prices	Number Outstanding	Options Outstanding		Options Exercisable	
		Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$10.00	85,600	8.88 years	\$10.00	17,867	\$10.00
\$11.55	4,650	9.39 years	\$11.55	—	\$ —

Indiana Business Bank
Notes to Financial Statements
December 31, 2005 and 2004

Note 13: 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 14: Lease

The Bank leases the space which houses its present operations. The lease expires March 31, 2009. Rental expense for this lease was \$120,200 and \$14,000 for the years ended December 31, 2005 and 2004.

Future minimum lease payments under operating leases are:

	Operating Lease
2006	\$ 116,382
2007	117,982
2008	119,581
2009	29,995
Total minimum lease payments	\$ 383,940

Note 15: Related Party Transactions

At December 31, 2005, the Bank had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties) in the amount of \$2,601,791.

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made substantially on the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectibility or present other unfavorable features.

Deposits from related parties held by the Bank at December 31, 2005 totaled \$2,557,880.

Note 16: 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.

Indiana Business Bank

Notes to Financial Statements

December 31, 2005 and 2004

Note 17: 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, 2005 and 2004, there were \$47,191 and \$0 letters of credit outstanding, respectively.

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, 2005 and 2004, the Bank had granted unused lines of credit to borrowers aggregating approximately \$6,724,569 and \$673,133.

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.

BOARD OF DIRECTORS

James C. Shook, Jr., Chairman
Real Estate Professional

John J. Dillon
Chief Deputy Mayor, City of Indianapolis

J. Murray Clark
Partner, Baker & Daniels, LLP

Gregory G. Gault
Chief Operating Officer

Kenneth Giffin
Government Relations Consultant

Thomas Godby
President, Godby Heating & Air Conditioning

James A. Hillebrand
Executive Vice President, Private Banking, Stock
Yards Bank

Thomas Killion
President, Killion Corporation

Richard D. Kruse
President, Kruse Enterprises

Beverly J. Middaugh
CEO, Bright Ideas in Broad Ripple, Inc.

Brian E. Moore
Vice President, Indiana Limestone & Private
Investor

Meghan P. Otis
Principal, Waveland Investments, LLC

Jane E. Nold Shriner
Vice President of Finance, Indianapolis Symphony
Orchestra

Robert E. Wynne
Partner, Baker & Daniels, LLP

James S. Young
Chief Executive Officer

EXECUTIVE OFFICERS

James S. Young
Chief Executive Officer

Gregory G. Gault
Chief Operating Officer

Dana H. Dillard
Chief Financial Officer

INDEPENDENT ACCOUNTANTS

BKD, LLP