



**Indiana
Business BancorpSM**

Focused. Responsive. Experienced.

2007 ANNUAL REPORT

INDIANA BUSINESS BANCORP 2007 ANNUAL REPORT TO SHAREHOLDERS

Table of Contents

Letter to Shareholders	3
Report of BKD LLP	9
2007 Financial Statements	10

Profile

Indiana Business Bancorp is the holding company for Indiana Business Bank, 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 Company or the Bank can be found on our website: <http://www.indianabb.com>.

Shareholder Information MARKET INFORMATION

<u>Quarterly Periods</u>	<u>High Bid</u>	<u>Low Bid</u>
Year Ended December 31, 2007:		
First quarter	\$ 11.00	\$ 9.75
Second quarter	\$ 10.50	\$ 9.00
Third quarter	\$ 10.20	\$ 8.50
Fourth quarter	\$ 10.50	\$ 8.50

TRANSFER AGENT CONTINENTAL STOCK TRANSFER

17 Battery Place
8th Floor
New York, NY 10004

LISTED ON OTC BULLETIN BOARD **SYMBOL: IBBI.OB**

MARKET MAKERS
David A. Noyes & Company
Hill Thompson, Magid & Co., Inc.
Knight Equity Markets, L.P.
LaBranche Financial Services, Inc.
Monroe Securities, Inc.
UBS Securities LLC



Indiana Business BancorpSM

April 8, 2008

Dear Fellow Shareholders:

I am pleased to report that we achieved our goal of full year profitability during 2007. This is especially gratifying given the turmoil experienced by many in the banking industry and the overall financial sector.

Net interest income for 2007 was \$2,608,857, a 29% increase over 2006 results, and is attributable to continued growth in the loan and investment portfolios. Non-interest income (comprised of service charges on deposit accounts and other fee income) totaled \$180,289, a 295% increase from 2006 results. Our residential mortgage production and commercial loan sale premiums contributed to this increase.

Non-interest expenses (generally salaries and other operating expenses) increased by 10% compared to 2006. The increase is due primarily to increased staffing levels and higher data processing costs.

Assets increased by 41% during 2007, and were \$79,883,251 at year end, compared to \$56,670,690 at December 31, 2006. Core deposits increased 32% over 2006 levels. Total deposits grew 42% during 2007 as core deposit growth was supplemented with increased national market deposit balances as well as an increase in brokered deposit levels.

At December 31, 2007, gross loans totaled \$67,504,846 a 49% increase from \$45,238,847 at December 31, 2006. Our allowance for loan losses was \$992,520 at year end 2007 which represents 1.47% of total loans. This ratio compares favorably with our peers. At December 31, 2007, our capital ratios exceeded regulatory guidelines for "well capitalized institutions".

While our positive momentum has continued into the first quarter of 2008, we expect this year to be highly competitive, as many in our industry view the Indianapolis market as attractive. Out of state banks continue to buy out formerly locally based banking companies, and competitors unable to find local acquisitions have opened loan production offices as an avenue for attracting local banking talent and commercial lending opportunities.

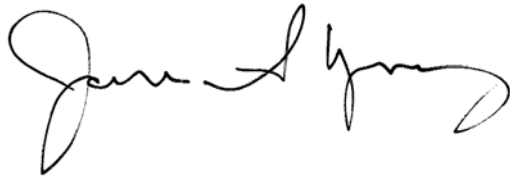
We expect 2008 to be a challenging year due to softness in the economy and uncertainties in the financial markets. However, we have avoided many of the areas of lending and investment that have presented particular challenges to other financial institutions. As noted in the attached financial statements, we regularly conduct critical evaluations of credit quality and have established reserves for those credits in our portfolio that have exhibited signs of weakness.

We will continue to compete for quality business and quality people. The fourth quarter of 2007 proved to be a very strong new business development period for the bank. Also, our recruiting efforts proved fruitful in late 2007 and early this year as we added additional local and seasoned banking professionals to our team. These additions position us well for continued strong and balanced growth throughout 2008.

We continue to profit from and appreciate the support of our investor and client base. If you are a business owner or know of local business people looking for a hometown banking alternative, we would appreciate the opportunity to sit down and discuss the Indiana Business Bank approach to client satisfaction. Our business model is quite simple: local ownership, local management, local decisions. I can be contacted directly at 317-218-2185, or via email at jyoung@indianabb.com

Thank you for continued support.

Sincerely,

A handwritten signature in black ink, appearing to read "James S. Young". The signature is fluid and cursive, with a large initial "J" and a long, sweeping underline.

James S. Young
President and CEO

Financial Summary for Indiana Business Bancorp

AUDITED

	As of and for the Twelve Months Ending December 31, 2007	
Operating Data	2007	2006
Net Interest Income	2,608,857	2,020,745
Provision for Loan Losses	300,207	477,923
Noninterest Income	180,289	61,134
Noninterest Expense	2,493,480	2,265,751
Net Income (Loss)	14,159	(661,795)
Per Share Data		
Net Earnings (Loss) – Basic	NM	\$ (0.45)
Weighted Average Shares Outstanding	1,484,100	1,484,100

	As of	As of
Balance Sheet Data	December 31, 2007	December 31, 2006
Total Assets	\$79,883,251	\$56,670,690
Total Loans	67,504,846	45,238,847
Allowance for Loan Losses	992,520	689,252
Investment Securities	6,515,420	4,499,999
Total Deposits	64,892,600	45,602,404
Total Shareholders' Equity	10,604,454	10,511,011



Independent Accountants' Report

To the Audit Committee of the Board of Directors
Indiana Business Bancorp
Indianapolis, Indiana

We have audited the accompanying consolidated balance sheets of Indiana Business Bancorp as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. 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 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Indiana Business Bancorp as of December 31, 2007 and 2006, 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 27, 2008

Indiana Business Bancorp
Consolidated Balance Sheets
December 31, 2007 and 2006

Assets

	2007	2006
Cash and due from banks	\$ 1,656,900	\$ 1,307,805
Federal funds sold	4,116,000	5,537,000
Interest-bearing demand deposits	31,103	18,095
Securities purchased under agreements to resell	3,237	2,759
Total cash and cash equivalents	5,807,240	6,865,659
Available-for-sale securities	6,515,420	4,499,999
Loans, net of allowance for losses of \$992,520 and \$689,252	66,512,326	44,549,595
Furniture and equipment, net of accumulated depreciation of \$407,969 and \$268,989	258,700	288,375
Interest receivable and other assets	789,565	467,062
Total assets	\$ 79,883,251	\$ 56,670,690

Liabilities and Stockholders' Equity

Liabilities

Deposits		
Demand	\$ 19,673,801	\$ 16,146,270
Savings	174,093	148,866
Certificates of deposit	45,044,706	29,307,268
Total deposits	64,892,600	45,602,404
Securities sold under agreements to repurchase	130,144	337,018
Federal Home Loan Bank advances	3,500,000	-
Interest payable and other liabilities	756,053	220,257
Total liabilities	69,278,797	46,159,679

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	12,409,549	12,360,705
Accumulated deficit	(3,317,711)	(3,331,870)
Accumulated other comprehensive income (loss)	28,516	(1,924)
Total stockholders' equity	10,604,454	10,511,011
Total liabilities and stockholders' equity	\$ 79,883,251	\$ 56,670,690

Indiana Business Bancorp
Consolidated Statements of Income
Years Ended December 31, 2007 and 2006

	2007	2006
Interest Income		
Loans	\$ 4,504,506	\$ 2,798,377
Securities - taxable	286,171	159,659
Federal funds sold	243,556	346,660
Other	561	-
Total interest income	5,034,794	3,304,696
Interest Expense		
Deposits	2,385,801	1,283,951
Other borrowings	40,136	-
	2,425,937	1,283,951
Net Interest Income	2,608,857	2,020,745
Provision for Loan Losses	300,207	477,923
Net Interest Income After Provision for Loan Losses	2,308,650	1,542,822
Noninterest Income		
Net gains and fees on sale of loans	133,574	-
Other	46,715	61,134
Total noninterest income	180,289	61,134
Noninterest Expense		
Salaries and employee benefits	1,404,035	1,220,473
Occupancy expense	135,219	129,885
Equipment expense	163,771	153,953
Data processing fees	193,002	164,078
Professional fees	139,998	176,797
Marketing expense	78,398	88,212
Other	379,057	332,353
Total noninterest expense	2,493,480	2,265,751
Credit for Income Taxes	(18,700)	-
Net Income (Loss)	\$ 14,159	\$ (661,795)

Indiana Business Bancorp

Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2007 and 2006

	Common Stock		Comprehensive Income (Loss)	Accumulated Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
Balances, January 1, 2006	1,484,100	\$ 1,484,100		\$ 12,288,705	\$ (2,670,075)	\$ (20,601)	\$ 11,082,129
Net loss			\$ (661,795)		(661,795)		(661,795)
Other comprehensive income (loss)							
Unrealized gains on available-for-sale securities			47,152			47,152	
Tax expense			(28,475)			(28,475)	
Total other comprehensive income			<u>18,677</u>			<u>18,677</u>	18,677
			<u>\$ (643,118)</u>				
Stock option vesting				72,000			72,000
Balances, December 31, 2006	1,484,100	1,484,100		12,360,705	(3,331,870)	(1,924)	10,511,011
Net income			\$ 14,159		14,159		14,159
Other comprehensive income (loss)							
Unrealized gains on available-for-sale securities			76,849			76,849	
Tax expense			(46,409)			(46,409)	
Total other comprehensive income			<u>30,440</u>			<u>30,440</u>	30,440
			<u>\$ 44,599</u>				
Stock option vesting				48,844			48,844
Balances, December 31, 2007	1,484,100	\$ 1,484,100		\$ 12,409,549	\$ (3,317,711)	\$ 28,516	\$ 10,604,454

Indiana Business Bancorp
Consolidated Statements of Cash Flows
Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating Activities		
Net income (loss)	\$ 14,159	\$ (661,795)
Items not requiring (providing) cash		
Depreciation and amortization	138,980	134,335
Provision for loan losses	300,207	477,923
Amortization (accretion) on securities	1,259	(6,513)
Share-based compensation	48,844	72,000
Changes in		
Interest receivable and other assets	(322,503)	(184,356)
Interest payable and other liabilities	517,096	75,886
Net cash provided by (used in) operating activities	<u>698,042</u>	<u>(92,520)</u>
Investing Activities		
Purchases of available-for-sale securities	(3,967,540)	(4,502,310)
Proceeds from maturities of available-for-sale securities	2,000,000	3,000,000
Net change in loans	(22,262,938)	(20,755,776)
Purchases of premises and equipment	(109,305)	(43,954)
Net cash used in investing activities	<u>(24,339,783)</u>	<u>(22,302,040)</u>
Financing Activities		
Net increase in demand deposits and savings accounts	3,552,759	3,664,429
Net increase in certificates of deposit	15,737,437	17,174,749
Net increase in securities sold under purchase agreements	(206,874)	85,750
Proceeds from Federal Home Loan Bank advances	3,600,000	-
Repayment of Federal Home Loan Bank advances	(100,000)	-
Net cash provided by financing activities	<u>22,583,322</u>	<u>20,924,928</u>
Decrease in Cash and Cash Equivalents	(1,058,419)	(1,469,632)
Cash and Cash Equivalents, Beginning of Year	<u>6,865,659</u>	<u>8,335,291</u>
Cash and Cash Equivalents, End of Year	<u>\$ 5,807,240</u>	<u>\$ 6,865,659</u>
Supplemental Cash Flows Information		
Interest paid	\$ 2,396,367	\$ 1,337,210

Indiana Business Bancorp
Notes to Consolidated Financial Statements
December 31, 2007 and 2006

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

Nature of Operations

The consolidated financial statements include the accounts of Indiana Business Bancorp (Company) and its wholly-owned subsidiary, Indiana Business Bank (Bank). Indiana Business Bancorp was organized as of July 1, 2006, for the purpose of owning all of the outstanding stock of Indiana Business Bank.

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.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company. All significant intercompany accounts and transactions have been eliminated in consolidation.

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 Company 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 Company 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.

Indiana Business Bancorp
Notes to Consolidated Financial Statements
December 31, 2007 and 2006

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 and unamortized premiums or discounts on purchased loans. Interest income is reported on the interest method. Generally, loans are placed on non-accrual status at 90 days past due, and interest is considered a loss, unless the loan is well-secured and in the process of collection.

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 loan balance is uncollectible. 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.

A loan is considered impaired when, based on current information and events, it is probable that the Company 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 Company will not separately identify individual consumer and residential loans for impairment measurements.

Indiana Business Bancorp
Notes to Consolidated Financial Statements
December 31, 2007 and 2006

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.

Stock Options

At December 31, 2007, the Company has a share-based employee compensation plan, which is described more fully in Note 13. The Company accounts for this plan under the recognition and measurement principles of Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment*.

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.

Reclassifications

Certain reclassifications have been made to the 2006 financial statements to conform to the 2007 financial statement presentation. These reclassifications had no effect on net income.

Note 2: Restriction on Cash and Due From Banks

The Company is required to maintain reserve funds on deposit with the Federal Reserve Bank. The reserve required at December 31, 2007 and 2006 was \$25,000.

Indiana Business Bancorp
Notes to Consolidated Financial Statements
December 31, 2007 and 2006

Note 3: Securities

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Available-for-Sale Securities:				
December 31, 2007				
U. S. Government Agencies	\$ 6,468,204	\$ 47,216	\$ -	\$ 6,515,420
December 31, 2006				
U. S. Government Agencies	\$ 4,501,923	\$ 3,262	\$ 5,186	\$ 4,499,999

The amortized cost and fair value of securities available for sale at December 31, 2007, 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	\$ 1,000,000	\$ 1,000,600
One to five years	2,500,374	2,524,050
Five years or more	2,967,830	2,990,770
Totals	\$ 6,468,204	\$ 6,515,420

The carrying value of securities pledged as collateral to secure repurchase agreements was \$503,300 and \$500,300 at December 31, 2007 and 2006.

There were no debt securities reported at amounts less than historical cost at December 31, 2007. Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost as of December 31, 2006. Total fair value of these investments was \$1,996,250 at December 31, 2006, which is approximately 44% of the Company'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.

Indiana Business Bancorp
Notes to Consolidated Financial Statements
December 31, 2007 and 2006

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, 2006:

Description of Securities	Less than 12 months		2006 More than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Loss
U. S. Government Agencies	\$ 1,500,300	\$ 1,390	\$ 495,950	\$ 3,796	\$ 1,996,250	\$ 5,186

Note 4: Securities Purchased Under Agreements to Resell

The Company 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 Company's account maintained at a third-party custodian's account designated by the Company under a written custodial agreement that explicitly recognizes the Company's interest in the securities. At December 31, 2007 and 2006, these agreements matured daily. The Company's policy requires that all securities purchased under agreements to resell be fully collateralized.

Note 5: Loans and Allowance for Loan Losses

Loans at December 31 include:

	2007	2006
Commercial loans	\$ 61,385,328	\$ 40,051,001
Residential mortgage	2,785,624	3,210,162
Consumer	3,333,894	1,977,684
Total loans	<u>67,504,846</u>	<u>45,238,847</u>
Less: allowance for loan losses	<u>(992,520)</u>	<u>(689,252)</u>
Net loans	<u>\$ 66,512,326</u>	<u>\$ 44,549,595</u>

Indiana Business Bancorp
Notes to Consolidated Financial Statements
December 31, 2007 and 2006

Activity in the allowance for loan losses was as follows:

	<u>2007</u>	<u>2006</u>
Balance, beginning of year	\$ 689,252	\$ 369,620
Provision charged to expense	300,207	477,923
Recoveries (losses charged off)	<u>3,061</u>	<u>(158,291)</u>
Balance, end of year	<u>\$ 992,520</u>	<u>\$ 689,252</u>

Impaired loans totaled \$2,196,796 and \$339,942 at December 31, 2007 and 2006, respectively. A specific allowance for loan losses of \$200,000 relates to impaired loans of \$200,000 at December 31, 2007. At December 31, 2007 and 2006, impaired loans of \$1,996,796 and \$339,942, respectively, had no related specific allowance for loan losses.

Interest of \$25,694 and \$23,105 was recognized on average impaired loans of \$1,206,395 and \$362,401 for 2007 and 2006, respectively. Interest of \$3,558 and \$3,447 was recognized on impaired loans on a cash basis during 2007 and 2006, respectively.

At December 31, 2007 and 2006, there were \$474,346 and \$0 of loans delinquent 90 days or more and still accruing interest. Non-accruing loans at December 31, 2007 and 2006 were \$1,300,000 and \$181,652, respectively.

Note 6: Furniture and Equipment

	<u>2007</u>	<u>2006</u>
Autos	\$ 65,838	\$ 39,519
Furniture and equipment	594,551	511,565
Leasehold improvements	<u>6,280</u>	<u>6,280</u>
Total cost	666,669	557,364
Accumulated depreciation	<u>(407,969)</u>	<u>(268,989)</u>
Net furniture and equipment	<u>\$ 258,700</u>	<u>\$ 288,375</u>

Indiana Business Bancorp
Notes to Consolidated Financial Statements
December 31, 2007 and 2006

Note 7: Certificates of Deposit

Interest-bearing time deposits in denominations of \$100,000 or more were \$25,170,735 and \$15,478,688 on December 31, 2007 and 2006, respectively.

At December 31, 2007, the scheduled maturities of time deposits are as follows:

2008	\$ 41,173,117
2009	3,832,637
2010	<u>38,952</u>
	<u>\$ 45,044,706</u>

Note 8: Federal Home Loan Bank Advances

The Company has Federal Home Loan Bank advances with interest rates ranging from 3.50% to 5.14%, which are due at various dates through December 2012.

The maturities of these borrowings at December 31, 2007 are as follows:

2008	\$ 500,000
2009	2,500,000
2010	-
2011	-
2012	<u>500,000</u>
	<u>\$ 3,500,000</u>

First commercial mortgage loans totaling \$5,067,423 were pledged as collateral for FHLB advances at December 31, 2007. Certain advances are subject to restrictions or penalties in the event of prepayment.

FHLB advances, totaling \$500,000, are subject to an option by the FHLB to convert the entire advance to a periodic adjustable rate at various times after the date of the advance and periodically thereafter. If the FHLB exercises its option to convert the advance to an adjustable rate, the advance will be prepayable at the Bank's option, at par and without a penalty.

Note 9: Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase consist of an obligation of the Company 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 2007 and 2006, totaled \$231,573 and \$337,018, respectively, and the average of such agreements totaled \$169,371 and \$232,531 for 2007 and 2006, respectively. The agreements at December 31, 2007 mature daily.

Indiana Business Bancorp
Notes to Consolidated Financial Statements
December 31, 2007 and 2006

Note 10: Income Taxes

During 2007 and 2006, the Company had no income taxes currently payable and generated a deferred tax asset of \$0 and \$306,739. An increase in the deferred tax asset valuation allowance of \$0 and \$306,739 was recorded in 2007 and 2006.

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

	<u>2007</u>	<u>2006</u>
Computed at the statutory rate (34%)	\$ (1,544)	\$ (225,010)
Increase (decrease) resulting from		
Other	3,543	5,925
State income taxes	-	(32,820)
Deferred tax asset valuation allowance	(1,999)	251,905
Reduction due to other comprehensive income	<u>(18,700)</u>	<u>-</u>
Actual tax benefit	<u>\$ (18,700)</u>	<u>\$ -</u>

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

	<u>2007</u>	<u>2006</u>
Deferred tax assets		
Allowance for loan losses	\$ 210,213	\$ 110,508
Net operating loss carryforward	959,076	975,736
Organization costs	165,992	254,988
Stock options	50,321	30,036
Other	17,225	26,402
	<u>1,402,827</u>	<u>1,397,670</u>
Deferred tax liabilities		
Prepays	(30,158)	(12,586)
Depreciation	(6,385)	(17,064)
State income tax	(53,544)	(53,281)
Unrealized gains on available-for-sale securities	<u>(18,700)</u>	<u>-</u>
	<u>(108,787)</u>	<u>(82,931)</u>
Valuation allowance		
Beginning balance	(1,314,739)	(1,008,000)
(Increase) decrease during the period	<u>20,699</u>	<u>(306,739)</u>
Ending balance	<u>(1,294,040)</u>	<u>(1,314,739)</u>
	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2007 and 2006, the Company had approximately \$2,413,000 and \$1,691,000 of federal and state net operating loss carryforwards, which both will begin to expire in 2023.

Indiana Business Bancorp
Notes to Consolidated Financial Statements
December 31, 2007 and 2006

Note 11: 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, 2007, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2007 and 2006, 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, 2007						
Total capital						
(to risk-weighted assets)	\$ 11,415	17.1%	\$ 5,330	8.0%	\$ 6,663	10.0%
Tier I capital						
(to risk-weighted assets)	10,580	15.9	2,665	4.0	3,998	6.0
Tier I capital						
(to average assets)	10,580	14.2	2,976	4.0	3,720	5.0
As of December 31, 2006						
Total capital						
(to risk-weighted assets)	\$ 11,048	25.8%	\$ 3,432	8.0%	\$ 4,290	10.0%
Tier I capital						
(to risk-weighted assets)	10,511	24.5	1,716	4.0	2,574	6.0
Tier I capital						
(to average assets)	10,511	19.8	2,121	4.0	2,652	5.0

Indiana Business Bancorp
Notes to Consolidated Financial Statements
December 31, 2007 and 2006

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

Note 12: Defined-Contribution Plan

The Company has a 401(k) profit-sharing plan covering substantially all employees. Employees may contribute up to 100% of their compensation with the Company matching 100% of the employee's contribution on the first 6% of the employees' compensation, which amounted to expense of \$58,097 and \$55,677 in 2007 and 2006, respectively. The Company may also provide a discretionary profit-sharing contribution to be determined annually by management. There was no discretionary profit-sharing contribution in 2007 and 2006.

Note 13: Stock Option Plan

The Company's Stock Option and Incentive Plan, which is shareholder approved, permits the grant of share options and shares to its directors and employees for up to 160,000 shares of common stock. The Company believes that such awards better align the interests of its employees with those of its shareholders. Option awards are generally granted with an exercise price intended to be equal to the market price of the Company's stock at the date of grant; those option awards generally vest based on 6 months to 3 years of continuous service, and have 10-year contractual terms. In 2006, the Company accelerated the vesting of certain previously granted options. Certain option awards provide for accelerated vesting if there is a change in control (as defined in the Plan).

The fair value of each option award is estimated on the date of grant using a closed form valuation model that uses the assumptions noted in the following table. Expected and weighted-average volatility is based on historical volatility of a similar industry sector index using daily historical closing values for a period of time prior to the grant date of options that equals the length of the expected term of options granted. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The expected dividends are based on the dividend payout of similar financial institutions and anticipated future activity for the Company. The risk-free rate for options granted is based on the U.S. Treasury rate for a similar term as the average expected term of the option.

	2007	2006
Expected volatility	17.54 - 17.87%	17.80 - 17.90%
Weighted-average volatility	17.72%	17.86%
Expected dividends	1.00%	1.50%
Expected term (in years)	5	5
Risk-free rate	4.68 - 4.82%	4.28 - 4.97%

Indiana Business Bancorp
Notes to Consolidated Financial Statements
December 31, 2007 and 2006

A summary of option activity under the Plan as of December 31, 2007, and changes during the year then ended, is presented below:

	2007		Weighted-Average Remaining Contractual Term
Shares	Weighted-Average Exercise Price		
Outstanding, beginning of year	110,200	\$ 10.17	
Granted	22,700	10.47	
Forfeited	(9,100)	10.35	
Outstanding, end of year	142,000	\$ 10.21	8.33
Options exercisable, end of year	113,134	\$ 10.16	5.83

The weighted-average grant-date fair value of options granted during the 2007 and 2006 was \$2.43 and \$2.19, respectively.

As of December 31, 2007, there was \$15,991 of total unrecognized compensation cost related to share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 1.8 years for both 2007 and 2006. The Company recognized \$48,844 of compensation expense and \$11,474 of tax benefit related to share-based compensation expense in 2007. During 2006, the Company recognized \$72,000 of compensation expense and \$30,036 of tax benefit related to the share-based compensation expense.

Note 14: Stock Warrants

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

Indiana Business Bancorp
Notes to Consolidated Financial Statements
December 31, 2007 and 2006

Note 15: Lease

The Company leases the space that houses its present operations. The lease expires March 31, 2009. The Company has the option to renew this lease for two separate five-year periods. Rental expense for this lease was \$126,865 and \$123,464 for the years ended December 31, 2007 and 2006.

Future minimum lease payments under operating leases are:

	Operating Leases
2008	\$ 119,581
2009	29,995
Total minimum lease payments	\$ 149,576

Note 16: Related Party Transactions

At December 31, 2007 and 2006, the Company had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties) in the amount of \$3,582,732 and \$4,070,670, respectively.

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. All loan transactions to related parties were approved by the Board of Directors. 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 Company at December 31, 2007 and 2006 totaled \$2,058,626 and \$1,510,022, respectively.

Indiana Business Bancorp
Notes to Consolidated Financial Statements
December 31, 2007 and 2006

Note 17: 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 footnote 18 on commitments and credit risk.

Note 18: Commitments and Credit Risk

Letters of Credit

Letters of credit are conditional commitments issued by the Company 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, 2007 and 2006, there were \$187,291 and \$267,991 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, 2007 and 2006, the Company had granted unused lines of credit to borrowers aggregating approximately \$10,263,891 and \$10,072,138.

Salary Continuation Agreements

The Company 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 Company, 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 December 2010.

BOARD OF DIRECTORS

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

Richard D. Kruse
President, Kruse Enterprises

John J. Dillon
Executive Vice President, City Securities
Corporation

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

J. Murray Clark
Partner, Baker & Daniels, LLP

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

Patrick J. Early
President, Somerset CPA's

Ifeanyi Osili
Principal, A2SO4 Architecture

Gregory G. Gault
Chief Operating Officer

Meghan P. Otis
Principal, Waveland Investments, LLC

Thomas Godby
President, Godby Heating & Air Conditioning

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

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

Robert E. Wynne
Partner, Baker & Daniels, LLP

Thomas Killion
President, Killion Corporation

James S. Young
Chief Executive Officer

EXECUTIVE OFFICERS

James S. Young
Chief Executive Officer

Gregory G. Gault
Secretary

Dana H. Dillard
Chief Financial Officer

INDEPENDENT ACCOUNTANTS

BKD, LLP