



**Indiana
Business BancorpSM**

Focused. Responsive. Experienced.

2009 ANNUAL REPORT

INDIANA BUSINESS BANCORP 2009 ANNUAL REPORT TO SHAREHOLDERS

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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: indianabb.com.

Shareholder Information MARKET INFORMATION ⁽¹⁾

<u>Quarterly Periods</u>	<u>High</u>	<u>Low</u>
Year Ended December 31, 2009:		
First quarter	\$ 3.90	\$ 2.05
Second quarter	\$ 3.65	\$ 2.15
Third quarter	\$ 4.00	\$ 3.50
Fourth quarter	\$ 4.00	\$ 3.90

<u>Quarterly Periods</u>	<u>High</u>	<u>Low</u>
Year Ended December 31, 2008:		
First quarter	\$ 10.50	\$ 7.30
Second quarter	\$ 8.75	\$ 6.60
Third quarter	\$ 8.00	\$ 6.40
Fourth quarter	\$ 6.40	\$ 3.60

⁽¹⁾ Prices through the third quarter of 2009 represent bid prices. Fourth quarter 2009 prices represent trades.

TRANSFER AGENT CONTINENTAL STOCK TRANSFER

17 Battery Place
8th Floor
New York, NY 10004

LISTED ON OTC BULLETIN BOARD SYMBOL: IBBI.OB

MARKET MAKERS
Automated Trading Desk, a Citi Company
Monroe Securities, Inc.



Indiana Business BancorpSM

April 5, 2010

Dear Fellow Shareholders:

2009 proved to be a continuation of the economic difficulties that the nation and the banking industry faced in 2008. Indiana Business Bank was able to achieve a modest profit through the hard work of our employees and the continued support of our Directors, Shareholders, and Clients.

Net interest income for 2009 was \$2,993,097, a 9% increase over 2008 results, and was attributable to an increase in our net interest margin, as liabilities (primarily deposit and Federal Home Loan Bank advances) re-priced downward more quickly than our assets (primarily loans and investments). Non-interest income (comprised of service charges on deposit accounts and fees on sales of government guaranteed loans) totaled \$215,871, an 8% increase over 2008 results.

Non-interest expenses, generally salaries and other operating expenses, increased by 3%, year over year, from \$2,819,214 in 2008 to \$2,912,941 in 2009, due primarily to increased FDIC assessments, higher professional fees and expenses from Other Real Estate Owned. The impact of these higher expenses was mitigated by a \$224,384 reduction in salaries and employee benefits.

The net profit for the year was \$17,139 compared to a net loss of \$898,673 in 2008. The 2009 provision for loan losses was \$278,888 compared with \$1,001,339 for 2008. At December 31, 2009, our allowance for loan and lease loss was 1.59% of outstanding loans.

Assets contracted less than 2% during 2009 from \$89,978,662 at year end 2008 to \$88,341,401 at December 31, 2009. This reduction was primarily a result of exiting some non-core loan relationships such as loans purchased from other financial institutions and stand alone commercial real estate loans. Gross loans, as a result of the above actions, declined 11%, from \$78,460,697 at December 31, 2008 to \$70,314,937 at year end 2009. The proceeds enhanced the Bank's liquidity position and strongly increased our cash balances.

Total deposits increased \$1,003,711 from year end 2008 to December 31, 2009. Our non-interest bearing deposits increased \$2,329,210 during 2009.

As I look out towards 2010, I see essentially the same terrain that we encountered during 2009. We will proceed in much the same manner that we did in 2009. We will tightly monitor and control those expenses that are within our control. We will manage problem assets for the best possible outcome and at the lowest cost. Growth will be tempered to help continue our strong liquidity and capital positions, and we will continue to take advantage of the current low interest rate environment to further improve our net interest margin and profitability. Above all, we will strive each day to provide superior personalized service to our loyal clients.

Thank you for your continued support. If you should have any questions or comments, please contact me directly at 317-218-2185, or via email at jyoung@indianabb.com.

Sincerely,

A handwritten signature in black ink, appearing to read "James S. Young". The signature is fluid and cursive, with the first name "James" being the most prominent part.

James S. Young
President & CEO

Financial Summary for Indiana Business Bancorp

AUDITED

	As of and for the Twelve Months Ending December 31, 2009	As of and for the Twelve Months Ending December 31, 2008
Operating Data		
Net Interest Income	2,993,097	2,739,983
Provision for Loan Losses	278,888	1,001,339
Noninterest Income	215,871	200,597
Noninterest Expense	2,912,941	2,819,214
Net Income (Loss)	17,139	(898,673)
Per Share Data		
Net Earnings (Loss) – Basic	N/A	(.61)
Weighted Average Shares Outstanding	1,494,325	1,484,100

	As of December 31, 2009	As of December 31, 2008
Balance Sheet Data		
Total Assets	88,341,401	\$89,978,662
Total Loans	71,314,937	78,460,697
Allowance for Loan Losses	1,130,698	1,344,796
Investment Securities	6,535,600	7,146,900
Total Deposits	72,385,956	71,382,245
Total Shareholders' Equity	9,774,803	9,869,154

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, 2009 and 2008, 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, 2009 and 2008, 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 31, 2010

Indiana Business Bancorp
Consolidated Balance Sheets
December 31, 2009 and 2008

Assets

	2009	2008
Cash and due from banks	\$ 7,418,613	\$ 1,227,559
Federal funds sold	-	1,921,000
Interest-bearing demand deposits	484,899	46,517
Total cash and cash equivalents	7,903,512	3,195,076
Available-for-sale securities	6,535,600	7,146,900
Loans, net of allowance for losses of \$1,130,698 and \$1,344,796	70,184,239	77,115,901
Furniture and equipment, net of accumulated depreciation of \$604,566 and \$498,929	200,920	262,684
Prepaid FDIC assessment	669,144	-
Interest receivable and other assets	2,847,986	2,258,101
Total assets	\$ 88,341,401	\$ 89,978,662

Liabilities and Stockholders' Equity

Liabilities

Deposits		
Demand	\$ 18,426,043	\$ 16,096,833
Savings	131,406	154,432
Certificates of deposit	53,828,507	55,130,980
Total deposits	72,385,956	71,382,245
Federal Home Loan Bank advances	6,000,000	8,500,000
Interest payable and other liabilities	180,642	227,263
Total liabilities	78,566,598	80,109,508

Stockholders' Equity

Common stock, \$1 par value; authorized 4,000,000 shares; issued and outstanding 2009 - 1,494,325 shares, 2008 - 1,484,100 shares	1,484,100	1,484,100
Additional paid-in capital	12,458,394	12,439,545
Accumulated deficit	(4,199,245)	(4,216,384)
Accumulated other comprehensive income	31,554	161,893
Total stockholders' equity	9,774,803	9,869,154
Total liabilities and stockholders' equity	\$ 88,341,401	\$ 89,978,662

Indiana Business Bancorp
Consolidated Statements of Income
Years Ended December 31, 2009 and 2008

	2009	2008
Interest Income		
Loans	\$ 4,678,757	\$ 5,021,734
Securities - taxable	307,850	288,254
Federal funds sold	989	89,308
Other	12,217	14,144
Total interest income	4,999,813	5,413,440
Interest Expense		
Deposits	1,719,025	2,400,791
Other borrowings	287,691	272,666
	2,006,716	2,673,457
Net Interest Income	2,993,097	2,739,983
Provision for Loan Losses	278,888	1,001,339
Net Interest Income After Provision for Loan Losses	2,714,209	1,738,644
Noninterest Income		
Net gains and fees on sale of loans	207,922	102,589
Write-down of other real estate owned	(58,000)	-
Realized gain (loss) on investments	(51,000)	17,066
Other	116,949	80,942
Total noninterest income	215,871	200,597
Noninterest Expense		
Salaries and employee benefits	1,427,038	1,651,422
Occupancy expense	131,558	139,273
Equipment expense	134,578	111,496
Data processing fees	241,371	242,563
Professional fees	326,677	183,961
Marketing expense	4,485	31,908
Travel and entertainment	33,902	62,923
FDIC assessment	198,684	61,500
Other real estate owned expense	124,156	58,344
Other	290,492	275,824
Total noninterest expense	2,912,941	2,819,214
Provision for Income Taxes	-	18,700
Net Income (Loss)	\$ 17,139	\$ (898,673)

Indiana Business Bancorp

Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2009 and 2008

	Common Stock Shares	Common Stock Amount	Comprehensive Income (Loss)	Accumulated Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balances, January 1, 2008	1,484,100	\$ 1,484,100		\$ 12,409,549	\$ (3,317,711)	\$ 28,516	\$ 10,604,454
Net income			\$ (898,673)		(898,673)		(898,673)
Other comprehensive loss							
Unrealized gains on available-for-sale securities, net of reclassification adjustment			133,377			133,377	133,377
Total other comprehensive income			\$ (765,296)				133,377
Stock option vesting				29,996			29,996
Balances, December 31, 2008	1,484,100	1,484,100		12,439,545	(4,216,384)	161,893	9,869,154
Net income			\$ 17,139		17,139		17,139
Other comprehensive income (loss)							
Unrealized losses on available-for-sale securities, net of reclassification adjustment			(130,339)			(130,339)	(130,339)
Total other comprehensive income			\$ (113,200)				(130,339)
Issuance of restricted shares	10,225						
Stock option vesting				18,849			18,849
Balances, December 31, 2009	1,494,325	\$ 1,484,100		\$ 12,458,394	\$ (4,199,245)	\$ 31,554	\$ 9,774,803

See Notes to Consolidated Financial Statements

Indiana Business Bancorp
Consolidated Statements of Cash Flows
Years Ended December 31, 2009 and 2008

	2009	2008
Operating Activities		
Net income (loss)	\$ 17,139	\$ (898,673)
Items not requiring (providing) cash		
Depreciation and amortization	105,636	90,960
Provision for loan losses	278,888	1,001,339
Amortization (accretion) on securities, net	(6,975)	36,793
Realized (gain) loss on securities	51,000	(17,066)
Change in deferred tax valuation allowance	-	(18,700)
Share-based compensation	18,849	29,996
Changes in		
Interest receivable and other assets	(640,885)	(1,468,536)
Prepaid FDIC assessment	(669,144)	-
Interest payable and other liabilities	(46,621)	(491,390)
Net cash used in operating activities	(892,113)	(1,735,277)
Investing Activities		
Purchases of available-for-sale securities	(5,512,064)	(6,054,186)
Proceeds from maturities of available-for-sale securities	6,000,000	3,500,000
Proceeds from sales of available-for-sale securities	-	2,017,656
Net change in loans	6,652,774	(11,604,914)
Purchases of premises and equipment	(43,872)	(94,944)
Net cash provided by (used in) investing activities	7,096,838	(12,236,388)
Financing Activities		
Net increase (decrease) in demand deposits and savings accounts	2,306,184	(3,596,629)
Net increase (decrease) in certificates of deposit	(1,302,473)	10,086,274
Net increase in securities sold under purchase agreements	-	(130,144)
Proceeds from Federal Home Loan Bank advances	-	5,500,000
Repayment of Federal Home Loan Bank advances	(2,500,000)	(500,000)
Net cash provided by (used in) financing activities	(1,496,289)	11,359,501
Increase (Decrease) in Cash and Cash Equivalents	4,708,436	(2,612,164)
Cash and Cash Equivalents, Beginning of Year	3,195,076	5,807,240
Cash and Cash Equivalents, End of Year	\$ 7,903,512	\$ 3,195,076
Supplemental Cash Flows Information		
Interest paid	\$ 2,039,727	\$ 2,697,333

Indiana Business Bancorp
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

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, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans and fair value of financial instruments. 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.

One or more of the financial institutions holding the Company's cash accounts are participating in the FDIC's Transaction Account Guarantee Program. Under the program, through June 30, 2010, all noninterest-bearing transaction accounts at these institutions are fully guaranteed by the FDIC for the entire amount in the account. The Company has accounts held with Federal Home Loan Bank and the Federal Reserve Bank that are not federally insured in the amount of \$6,518,000.

Indiana Business Bancorp
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

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.

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, the accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is passed on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off are reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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.

Indiana Business Bancorp

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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.

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.

Dividend Restrictions

The Company and the Bank have never paid any dividends. If the Company were to begin paying dividends to its shareholders, the Company would depend upon dividends it would receive from the Bank. Banking laws and regulations restrict the amount of dividends the Bank could pay to the Company.

Stock-Based Compensation

At December 31, 2009, the Company has a share-based employee compensation plan, which is described more fully in Note 14.

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 Bancorp
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Current Economic Conditions

The current protracted economic decline continues to present financial institutions with circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair values of investments and other assets, constraints on liquidity and capital and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans.

At December 31, 2009, the Company held \$64,084,000 in commercial loans. Due to national, state and local economic conditions, values for commercial and development real estate have declined significantly, and the market for these properties is depressed.

The accompanying consolidated financial statements have been prepared using values and information currently available to the Company.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the consolidated financial statements could change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses and capital that could negatively impact the Company's ability to meet regulatory capital requirements and maintain sufficient liquidity.

Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 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, 2009 was \$25,000.

Note 3: Securities

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Securities:				
December 31, 2009				
U.S. Government sponsored entities	\$ 6,504,046	\$ 41,205	\$ (9,651)	\$ 6,535,600
December 31, 2008				
U.S. Government sponsored entities	\$ 6,985,007	\$ 161,893	\$ -	\$ 7,146,900

Indiana Business Bancorp
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

The amortized cost and fair value of securities available for sale at December 31, 2009, 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
One to five years	\$ 2,001,646	\$ 2,008,100
Five years or more	4,502,400	4,527,500
Totals	\$ 6,504,046	\$ 6,535,600

Proceeds from sales of securities available for sale during 2009 and 2008 were \$0 and \$2,018,000. Realized losses recognized on available-for-sale securities during 2009 and 2008 amounted to \$51,000 and \$0, respectively. There were no securities sold in 2009 while a gain \$17,000 was recognized on security sales in 2008.

Certain investments securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2009 and 2008 was \$1,003,000 and \$0, which is approximately 15% and 0%, respectively, of the Company's available-for-sale portfolio. U.S. agency securities at an unrealized loss position at December 31, 2009 totaled \$9,700 and were held at this position for a period of less than 12 months.

The unrealized losses on the Company's investments in direct obligations of U.S. Government agencies were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2009.

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. There are no agreements at December 31, 2009. At December 31, 2008, these agreements matured daily. The Company's policy requires that all securities purchased under agreements to resell be fully collateralized.

Indiana Business Bancorp
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Note 5: Loans and Allowance for Loan Losses

Loans at December 31 include:

	<u>2009</u>	<u>2008</u>
Commercial loans	\$ 64,084,305	\$ 70,900,962
Residential mortgage	2,841,690	3,641,702
Consumer	4,388,942	3,918,033
Total loans	<u>71,314,937</u>	<u>78,460,697</u>
Less: allowance for loan losses	<u>(1,130,698)</u>	<u>(1,344,796)</u>
Net loans	<u><u>\$ 70,184,239</u></u>	<u><u>\$ 77,115,901</u></u>

Activity in the allowance for loan losses was as follows:

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 1,344,796	\$ 992,520
Provision charged to expense	278,888	1,001,339
Charge-offs	(494,199)	(649,063)
Recoveries	1,213	-
Balance, end of year	<u><u>\$ 1,130,698</u></u>	<u><u>\$ 1,344,796</u></u>

Impaired loans totaled \$5,648,000 and \$4,452,000 at December 31, 2009 and 2008, respectively. A specific allowance for loan losses of \$327,000 relates to impaired loans of \$718,000 at December 31, 2009. A specific allowance for loan losses of \$390,000 relates to impaired loans of \$1,503,000 at December 31, 2008. At December 31, 2009 and 2008, impaired loans of \$4,931,000 and \$3,034,000, respectively, had no related specific allowance for loan losses.

Interest of \$190,000 and \$332,000 was recognized on average impaired loans of \$4,292,000 and \$6,576,000 for 2009 and 2008, respectively. Interest of \$41,000 and \$43,000 was recognized on impaired loans on a cash basis during 2009 and 2008, respectively.

At December 31, 2009 and 2008, there were no loans delinquent 90 days or more and still accruing interest. Nonaccruing loans at December 31, 2009 and 2008 were \$4,615,000 and \$1,318,000, respectively.

Indiana Business Bancorp
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Note 6: Furniture and Equipment

	2009	2008
Autos	\$ 65,838	\$ 65,838
Furniture and equipment	730,562	686,689
Leasehold improvements	9,086	9,086
Total cost	805,486	761,613
Accumulated depreciation	(604,566)	(498,929)
Net furniture and equipment	\$ 200,920	\$ 262,684

Note 7: Certificates of Deposit

Interest-bearing time deposits in denominations of \$100,000 or more were \$19,530,000 and \$29,178,000 on December 31, 2009 and 2008, respectively.

At December 31, 2009, the scheduled maturities of time deposits are as follows:

2010	\$ 40,919,192
2011	7,320,000
2012	5,589,315
	\$ 53,828,507

Note 8: Federal Home Loan Bank Advances

The Company has Federal Home Loan Bank advances with interest rates ranging from 2.89% to 3.78%, which are due at various dates through May 2013.

The maturities of these borrowings at December 31, 2009 are as follows:

2010	\$ 500,000
2011	3,500,000
2012	500,000
2013	1,500,000
	\$ 6,000,000

First commercial mortgage loans and investment securities totaling \$11,683,000 and \$8,530,000, respectively, were pledged as collateral for FHLB advances at December 31, 2009 and 2008. Certain advances are subject to restrictions or penalties in the event of prepayment.

Indiana Business Bancorp
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

FHLB advances, totaling \$2,000,000, 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 repayable at the Company'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 2009 and 2008, totaled \$0 and \$103,000, respectively, and the average of such agreements totaled \$0 and \$64,000 for 2009 and 2008, respectively. There were no agreements outstanding at December 31, 2009 and 2008.

Note 10: Income Taxes

During 2009 and 2008, the Company had no income taxes currently payable and generated a deferred tax asset of \$1,638,000 and \$1,646,000. An increase (decrease) in the deferred tax asset valuation allowance of \$(9,000) and \$320,000 was recorded in 2009 and 2008.

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

	2009	2008
Computed at the statutory rate (34%)	\$ 5,827	\$ (299,191)
Increase (decrease) resulting from		
Other	2,846	(34,279)
Deferred tax asset valuation allowance	(8,673)	352,170
Actual tax benefit	\$ -	\$ 18,700

Indiana Business Bancorp
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

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

	2009	2008
Deferred tax assets		
Allowance for loan losses	\$ 315,702	\$ 323,435
Net operating loss carryforward	1,307,340	1,293,696
Organization costs	-	78,020
Stock options	78,719	63,263
Nonaccrual of loan interest	29,787	2,726
Restricted stocks	2,097	2,097
Other real estate owned write-down	14,790	-
Capital loss	21,390	-
Other	25,674	23,141
	1,795,499	1,786,378
Deferred tax liabilities		
Prepays	(48,709)	(37,434)
Depreciation	(19,206)	(13,205)
State income tax	(87,339)	(87,339)
Partnership investment	(2,708)	(2,190)
	(157,962)	(140,168)
Net deferred tax asset before valuation allowance	1,637,537	1,646,210
Valuation allowance		
Beginning balance	(1,646,210)	(1,294,040)
(Increase) decrease during the period	8,673	(352,170)
Ending balance	(1,637,537)	(1,646,210)
	\$ -	\$ -

As of December 31, 2009 and 2008, the Company had approximately \$3,207,000 and \$3,220,000 of federal and \$2,735,000 and \$2,507,000 of state net operating loss carryforwards, which both will begin to expire in 2023. With a few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2006.

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Note 11: Other Comprehensive Income

Other comprehensive income components and related taxes were as follows:

	2009	2008
Unrealized gains (losses) on available-for-sale securities	\$ (181,339)	\$ 150,443
Less: reclassification adjustment for realized gains (losses) included in net income	(51,000)	17,066
Other comprehensive income	\$ (130,339)	\$ 133,377

Note 12: 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, 2009, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2009 and 2008, 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.

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

	Actual		Minimum Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2009						
Total capital						
(to risk-weighted assets)	\$ 10,641	14.9%	\$ 5,712	8.0%	\$ 7,140	10.0%
Tier I capital						
(to risk-weighted assets)	9,745	13.6	2,856	4.0	4,284	6.0
Tier I capital						
(to average assets)	9,745	10.7	3,649	4.0	4,562	5.0
As of December 31, 2008						
Total capital						
(to risk-weighted assets)	\$ 10,788	13.9%	\$ 6,210	8.0%	\$ 7,763	10.0%
Tier I capital						
(to risk-weighted assets)	9,813	12.6	3,105	4.0	4,658	6.0
Tier I capital						
(to average assets)	9,813	10.7	3,664	4.0	4,580	5.0

The Bank is subject to banking laws and regulations that restrict the amount of dividends that it may pay without prior regulatory approval.

Note 13: 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 \$19,000 and \$71,000 in 2009 and 2008, 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 2009 and 2008. The Company suspended the 401(k) matching provision during 2009.

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Note 14: Stock Option Plans

The Company's 2008 Equity Incentive Plan was approved by the Board of Directors to replace the previous 2004 Stock Option and Incentive Plan. The 2008 Plan permits the grant of awards in the form of options and restricted shares to its directors and employees for up to 150,000 shares of common stock. The terms of awarded restricted shares are determined at the grant date and need not be identical among individual participants. The Company believes that such awards better align the interests of its employees with those of its shareholders. Option awards for both plans 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 six months to three years of continuous service, and have ten-year contractual terms. Share awards will ratably vest over three years.

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. There were no options issued or exercised in 2009.

	2008
Expected volatility	19.85-21.56%
Weighted-average volatility	20.65%
Expected dividends	1.50%
Expected term (in years)	5
Risk-free rate	2.82-3.24%

A summary of option activity under the Plan as of December 31, 2009, and changes during the year then ended, is presented below:

	2009		Weighted-Average Remaining Contractual Term
	Shares	Weighted-Average Exercise Price	
Outstanding, beginning of year	142,050	\$ 10.04	
Granted	-	-	
Forfeited	(300)	9.88	
Outstanding, end of year	141,750	\$ 10.04	5.72
Options exercisable, end of year	138,913	\$ 10.05	2.97

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A summary of the status of the Company's nonvested shares (restricted shares) as of December 31, 2009, and changes during the year then ended, is presented below:

	Shares	2009 Weighted- Average Grant Date Fair Value
Outstanding, beginning of year	-	\$ -
Granted	10,225	2.96
Outstanding, end of year	10,225	\$ 2.96

As of December 31, 2009 and 2008, there was \$30,000 and \$16,000, respectively, 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 2.42 and 1.75 years for 2009 and 2008, respectively. The Company recognized \$19,000 and \$30,000 of compensation expense related to share-based compensation expense in 2009 and 2008.

Note 15: 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.

Note 16: Lease

The Company leases the space that houses its present operations. The lease expires March 31, 2011. Rental expense for this lease was \$129,000 and \$131,000 for the years ended December 31, 2009 and 2008.

Future minimum lease payments under operating leases are:

	Operating Leases
2010	\$ 120,557
2011	30,139
	\$ 150,696

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Note 17: Related Party Transactions

At December 31, 2009 and 2008, the Company had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties) in the amount of \$3,500,000 and \$2,667,000, 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, 2009 and 2008 totaled \$2,007,000 and \$2,910,000, respectively.

Note 18: 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 Note 19 on commitments and credit risk.

Note 19: 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, 2009 and 2008, there were \$318,000 and \$457,000 letters of credit outstanding, respectively.

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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, 2009 and 2008, the Company had granted unused lines of credit to borrowers aggregating approximately \$12,187,000 and \$14,228,000.

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.

Note 20: Disclosures About Fair Values of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

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Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. Government sponsored entities.

Level 2 securities are valued by a third-party pricing service commonly used in the banking industry, utilizing observable inputs. Observable inputs include dealer quotes, market spreads, cash flow analysis, the U.S. Treasury curve, trade execution data, market consensus prepayment spreads and available credit information. The pricing provider utilizes evaluated pricing models that are based on asset class. These models incorporate available market information including quoted prices of securities with similar characteristics and, because many fixed income securities do not trade on a daily basis, apply available information through processes such as matrix pricing.

In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The following tables present the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2009 and 2008:

2009				
Fair Value Measurements Using				
Fair Value	Quoted Prices			
	in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
U.S. Government sponsored entities	\$ 6,535,600	\$ -	\$ 6,535,600	\$ -

2008				
Fair Value Measurements Using				
Fair Value	Quoted Prices			
	in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
U.S. Government sponsored entities	\$ 7,146,900	\$ -	\$ 7,146,900	\$ -

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Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Impaired Loans (Collateral Dependent)

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for estimating fair value include using the fair value of the collateral for collateral dependent loans.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value.

Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

Other Real Estate Owned

The fair value of real estate is generally determined based on appraisals by qualified licensed appraisers. The appraisers typically determine the value of the real estate by utilizing an income or market valuation approach. If an appraisal is not available, the fair value may be determined by using a cash flow analysis.

The following tables present the fair value measurements of assets and liabilities measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2009 and 2008:

	2009			
	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$ 720,506	\$ -	\$ -	\$ 720,506
Other real estate owned	542,000	-	-	542,000
	<u>\$ 1,262,506</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,262,506</u>

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	2008			
	Fair Value Measurements Using			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Impaired loans	\$ 1,028,624	\$ -	\$ -	\$ 1,028,624

Note 21: Subsequent Events

Subsequent events have been evaluated through March 31, 2010, which is the date the consolidated financial statements were available to be issued.

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