



# Indiana Business Bancorp<sup>SM</sup>

June 4, 2010

Dear Fellow Shareholders:

I would like to share with you my thoughts on 2009 and the first quarter of 2010.

## **2009**

Last year was every bit as difficult as we had expected. It seemed to many of us that we should have had more to show for all of our hard work. We successfully executed on many parts of our 2009 plan to react to the changing environment, which was characterized by:

- Continuing poor economic conditions
- Continued declines in real estate values
- Industry-wide increase in regulatory scrutiny
- Increased and “special” FDIC deposit insurance assessments

Our 2009 plan included the following:

- Control non-interest expense
- Generate fee income from the sale of SBA loans
- Improve net interest margin by implementing rate floors and re-pricing liabilities downward.

We were successful on all three fronts:

- Controllable non-interest expense fell by 9% in 2009 compared to 2008
- Salaries & Benefits were reduced by 14%
- SBA loan sale premium income exceeded \$200,000, compared to \$20,000 in 2008.

Among the hurdles we faced were an increase in troubled assets and the costs associated with managing these assets. Legal fees and costs incurred in rehabilitating other real estate owned (OREO) were substantial, but we believed were necessary to preserve and improve these assets in order to maximize recovery. We made it through 2009, but have

every reason to expect another difficult year in 2010. Therefore, our 2010 plan continues to include:

- Generating premium income from the secondary market sale of SBA loans
- Controlling expenses
- Resolving problem assets at lowest possible cost

### **NON-PERFORMING ASSETS**

The level of non-performing assets at March 31, 2010 is unacceptable. However, the vast majority of our non-performing assets have real estate as collateral, and there are only nine loans in non-accrual, a very manageable number. We also have approximately \$2 million in OREO at the end of March, 2010. The OREO portfolio generates income that results in a return that exceeds that of our loan portfolio. There are no bare ground, half finished residential developments, or spec houses in our OREO.

The debtors in seven of the nine non-accrual loans are currently maintaining a schedule of regular payments to the Bank. Most are owner-occupied properties, as opposed to income producing. Each of these relationships was originated in 2007 or earlier, and four of the five largest relationships had original loan-to-value (LTV) ratios of less than 60%. While this doesn't mean that loans made since 2007 will never have an issue, it does suggest that we maintained prudent underwriting standards, even before we saw the economy weaken in 2008. While the absolute level of non-performing assets is too high, we do not believe it truly reflects the overall risk of loss in the portfolio.

### **QUARTER ENDED MARCH 31, 2010**

The first quarter of 2010 looks much the same as 2009:

- Salaries & Benefits were reduced by 10% vs. the first quarter of 2009
- SBA loan sales continue to be strong; we have already collected \$145,000 in premium income, but due to a change in accounting rules, have only recognized a few thousand dollars. The balance will be reflected in the second and third quarters of 2010.
- We have a continued focus on resolving our troubled assets

With respect to loss reserves, in the first quarter we elected to accelerate the budgeted provision for the balance of 2010 and placed an additional \$230,000 in the Allowance for Loan & Lease Losses. The \$560,000 loss provision for the quarter resulted in a loss of \$519,043 for the quarter. We expect that the majority of the extra provision will be covered by settlement proceeds received and SBA loan sale premium income. We have therefore not given up on our goal of reporting a profit for 2010.

Over the next 18 months, the key elements of our stabilization plan are to:


- Moderate balance sheet growth
- Resolve problem assets
- Increase SBA Loan Sale Premium Income
- Continued Expense Control

At our Annual Meeting on May 25, 2010, 93% of outstanding shares were represented. Shareholders voted to re-elect all of the sixteen incumbent members of our Board of Directors for an additional one year term, and ratified our appointment of BKD, LLP as our independent registered public accounting firm for 2010.

You are encouraged to visit our website: [indianabb.com](http://indianabb.com) for earnings releases and other updates on the financial performance of the Company.

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](mailto:jyoung@indianabb.com).

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 & CEO

*"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Statements in this press release regarding Indiana Business Bank and Indiana Business Bancorp's business which are not historical facts are "forward-looking statements" that involve risks and uncertainties which may cause actual results to differ materially from expected results, including: changes in general, regional and local economic conditions, and their effect on interest rates; the impact of the downturn in housing and the adverse conditions in the credit markets; competition among banks and other financial intermediaries within the Indianapolis metropolitan market; risks that borrowers may default on their loans; and changes in regulations and accounting policies affecting financial institutions.*