UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 000-21671

THE NATIONAL BANK OF INDIANAPOLIS CORPORATION

(Exact name of Registrant as Specified in its Charter)

Indiana *(State or Other Jurisdiction of Incorporation or Organization)*	**35-1887991** *(I.R.S. Employer Identification No.)*
107 North Pennsylvania Street **Indianapolis, Indiana** *(Address of Principal Executive Offices)*	**46204** *(Zip Code)*

(317) 261-9000
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered Pursuant to Section 12(g) of the Act: Common Stock

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2006 was approximately $67,267,066. The number of shares of the registrant's Common Stock outstanding March 23, 2007 was 2,319,887.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Report on Form 10-K, to the extent not set forth herein, is incorporated herein by reference to the Registrant's definitive proxy statement to be filed in connection with the annual meeting of shareholders to be held on June 21, 2007.

Form 10-K Cross Reference Index

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PART I

Item 1. Business

The Corporation. The National Bank of Indianapolis Corporation (the "Corporation") was formed as an Indiana corporation on January 29, 1993, for the purpose of forming a banking institution in the Indianapolis, Indiana metropolitan area and holding all of the shares of common stock of such banking institution. The Corporation formed a national banking association named "The National Bank of Indianapolis" (the "Bank") as a wholly-owned subsidiary.

The Bank was officially chartered by the Office of the Comptroller of the Currency (the "OCC") on December 8, 1993 and opened for business to the public later on December 20, 1993. The Bank's deposits are insured by the FDIC. The Bank currently conducts its business through nine offices, including its downtown headquarters located at 107 North Pennsylvania Street in Indianapolis, and its neighborhood bank offices located at:

- 84th Street and Ditch Road in northwestern Marion County;
- 82nd Street and Bash Road in northeastern Marion County;
- the Chamber of Commerce Building on North Meridian Street;
- One America Office Complex in downtown Indianapolis;
- 49th Street and North Pennsylvania Street in northern Marion County;
- Keystone Avenue and East Carmel Drive in Hamilton County;
- 106th Street and Michigan Road in Hamilton County;
- Smith Valley Road and S.R. 135 in Johnson County.

The Bank provides a full range of deposit, credit, and money management services to its targeted market, which is small to medium size businesses, affluent executive and professional individuals, and not-for-profit organizations and has full trust powers.

Management initially sought to position the Bank to capitalize on the customer disruption, dissatisfaction, and turn-over which it believed has resulted from the acquisition of the three largest commercial banks located in Indianapolis by out-of-state holding companies. Management is now focused on serving the local markets with an organization which is not owned by an out-of-state company and whose decisions are made locally. On December 31, 2006, the Corporation had consolidated total assets of $1,034 million and total deposits of $875 million.

Management believes that the key ingredients in the growth of the Bank have been a well-executed business plan, an experienced Board of Directors and management team and a seasoned group of bank employees. The basic strategy of the Bank continues to emphasize the delivery of highly personalized services to the target client base with an emphasis on quick response and financial expertise.

Business Plan Overview. The business plan of the Bank is based on being a strong, locally owned bank providing superior service to a defined group of customers, which are primarily corporations with annual sales under $30 million, executives, professionals, and not-for-profit organizations. The Bank provides highly personalized banking services with an emphasis on knowledge of the particular financial needs and objectives of its clients and quick response to customer requests. Because the management of the Bank is located in Indianapolis, all credit and related decisions are made locally, thereby facilitating prompt response. The Bank emphasizes both highly personalized service at the customer's convenience and non-traditional delivery services that do not require customers to frequent the Bank. This personal contact has become a trademark of the Bank and a key means of differentiating the Bank from other financial service providers.

The Bank offers a broad range of deposit services typically available from most banks and savings associations, including interest and non-interest bearing checking accounts, savings and other kinds of deposits of various types (ranging from daily money market accounts to longer term certificates of deposit). The Bank also offers a full range of credit services, including commercial loans (such as lines of credit, term loans, refinancings, etc.), personal lines of credit, direct installment consumer loans, credit card loans, residential mortgage loans, construction loans, and letters of credit. In addition, the Bank offers full Wealth Management services.

The Bank's growth in deposits is attributable in part to the efforts of its staff who provide personal banking services to the Bank's customers. In addition, the Bank has emphasized paying competitive interest rates on deposit products. Finally, the Bank has offered savings and certificate of deposit products with competitive rates to larger depositors in an effort to minimize the operating costs of obtaining these deposits. Lending strategies focus primarily on commercial loans to small and medium size businesses as well as personal loans to executives and professionals.

The residential mortgage lending area of the Bank offers conforming, jumbo, portfolio, and Community Reinvestment Act mortgage products. The Bank utilizes secondary market channels it has developed for sale of those mortgage products described above. Secondary market channels include FNMA, as well as private investors identified through wholesale entities. Consumer lending is directed to executive and professional clients through residential mortgages, credit cards, and personal lines of credit to include home equity loans.

The Market. The Bank derives a substantial proportion of its business from the Indianapolis Metropolitan Statistical Area ("MSA"), Indiana area. Indianapolis has been ranked by a number of national publications as a "top" Midwestern city.

Competition. The Bank's service area is highly competitive. There are numerous financial institutions operating in the Indianapolis MSA marketplace, which provide strong competition to the Bank. In addition to the challenge of attracting and retaining customers for traditional banking services offered by commercial bank competitors, significant competition also comes from savings and loans associations, credit unions, finance companies, insurance companies, mortgage companies, securities and brokerage firms, money market mutual funds, loan production offices, and other providers of financial services in the area. These competitors, with focused products targeted at highly profitable customer segments, compete across geographic boundaries and provide customers increasing access to meaningful alternatives to banking services in nearly all significant products. The increasingly competitive environment is a result primarily of changes in regulations, changes in technology, product delivery systems and the accelerating pace of consolidation among financial service providers. These competitive trends are likely to continue. The Bank's ability to maintain its history of strong financial performance will depend in part on the Bank's ability over time to expand its scope of available financial services as needed to meet the needs and demands of its customers. The Bank competes in this marketplace primarily on the basis of highly personalized service, responsive decision making, and competitive pricing.

Employees. The Corporation and the Bank has 221 employees, of which 213 are full-time equivalent employees. The Bank has employed persons with substantial experience in the Indianapolis MSA banking market. The average banking experience level for all Bank employees is in excess of 13 years.

Lending Activity. The Bank's lending strategy emphasizes a high quality, well-diversified loan portfolio. The Bank's principal lending categories are commercial, commercial mortgage, residential mortgage, private banking/personal, and home equity. Commercial loans include loans for working capital, machinery and equipment purchases, premises and equipment acquisitions and other corporate needs. Residential mortgage lending includes loans on first mortgage residential properties. Private banking loans include secured and unsecured personal lines of credit as well as home equity loans.

Commercial loans typically entail a thorough analysis of the borrower, limited review of its industry, current and projected economic conditions and other factors. Credit analysis involves collateral, the type of loan, loan maturity, terms and conditions, and various loans to value ratios as they relate to loan policy. The Bank typically requires commercial borrowers to have annual financial statements prepared by independent accountants and may require such financial statements to be audited or reviewed by accountants. The Bank generally requires appraisals or evaluations in connection with loans secured by real estate. Such appraisals or evaluations are usually obtained prior to the time funds are advanced. The Bank also often requires personal guarantees from principals involved with closely-held corporate borrowers.

The Bank requires loan applications and personal financial statements from its personal borrowers on loans that the Bank originates. Loan officers complete a debt to income analysis and an analysis of collateral if appropriate that should meet established standards of lending policy.

The Bank maintains a comprehensive loan policy that establishes guidelines with respect to all categories of lending. In addition, loan policy sets forth lending authority for each loan officer. The Loan Committee of the Bank reviews all loans in excess of $500,000. Any loan in excess of a lending officer's lending authority, up to $1,500,000, must receive the approval of the Chief Executive Officer ("CEO"), Chief Lending Officer ("CLO"), Chief Credit Officer, Commercial Lending Manager, or Chief Client Officer. Loans in excess of $1,500,000 but less than $6,000,000 must be approved by the Loan Committee prior to the Bank making such loan. The Board of Directors Loan Policy Committee is not required to approve loans unless they are above $6,000,000 or are loans to directors or executive officers. Commercial loans are assigned a numerical rating based on creditworthiness and are monitored for improvement or deterioration. Consumer loans are monitored by delinquency trends. The consumer portfolios are assigned an average weighted risk grade based on specific risk characteristics. Loans are made primarily in the Bank's designated market area.

REGULATION AND SUPERVISION

Both the Corporation and the Bank operate in highly regulated environments and are subject to supervision and regulation by several governmental regulatory agencies, including the Board of Governors of the Federal Reserve System (the "Federal Reserve"), the OCC, and the Federal Deposit Insurance Corporation (the "FDIC"). The laws and regulations established by these agencies are generally intended to protect depositors, not shareholders. Changes in applicable laws, regulations, governmental policies, income tax laws and accounting principles may have a material effect on our business and prospects. The following summary is qualified by reference to the statutory and regulatory provisions discussed.

THE CORPORATION

The Bank Holding Company Act. Because the Corporation owns all of the outstanding capital stock of the Bank, it is registered as a bank holding company under the federal Bank Holding Company Act of 1956 and is subject to periodic examination by the Federal Reserve and required to file periodic reports of its operations and any additional information that the Federal Reserve may require.

Investments, Control, and Activities. With some limited exceptions, the Bank Holding Company Act requires every bank holding company to obtain the prior approval of the Federal Reserve before acquiring another bank holding company or acquiring more than five percent of the voting shares of a bank (unless it already owns or controls the majority of such shares).

Bank holding companies are prohibited, with certain limited exceptions, from engaging in activities other than those of banking or of managing or controlling banks. They are also prohibited from acquiring or retaining direct or indirect ownership or control of voting shares or assets of any company which is not a bank or bank holding company, other than subsidiary companies furnishing services to or performing services for their subsidiaries, and other subsidiaries engaged in activities which the Federal Reserve Board determines to be so closely related to banking or managing or controlling banks as to be incidental to these operations. The Bank Holding Company Act does not place territorial restrictions on the activities of such nonbanking-related activities.

Bank holding companies which meet certain management, capital, and CRA standards may elect to become a financial holding company, which would allow them to engage in a substantially broader range of nonbanking activities than is permitted for a bank holding company, including insurance underwriting and making merchant banking investments in commercial and financial companies.

The Corporation does not currently plan to engage in any activity other than owning the stock of the Bank.

Capital Adequacy Guidelines for Bank Holding Companies. The Federal Reserve, as the regulatory authority for bank holding companies, has adopted capital adequacy guidelines for bank holding companies. Bank holding companies with assets in excess of $150 million must comply with the Federal Reserve's risk-based capital guidelines which require a minimum ratio of total capital to risk-weighted assets (including certain off-balance sheet activities such as standby letters of credit) of 8%. At least half of the total required capital must be "Tier 1 capital," consisting principally of common stockholders' equity, noncumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock and minority interest in the equity accounts of consolidated subsidiaries, less certain goodwill items. The remainder ("Tier 2 capital") may consist of a limited amount of subordinated debt and intermediate-term preferred stock, certain hybrid capital instruments and other debt securities, cumulative perpetual preferred stock, and a limited amount of the general loan loss allowance. In addition to the risk-based capital guidelines, the Federal Reserve has adopted a Tier 1 (leverage) capital ratio under which the bank holding company must maintain a minimum level of Tier 1 capital to average total consolidated assets of 3% in the case of bank holding companies which have the highest regulatory examination ratings and are not contemplating significant growth or expansion. All other bank holding companies are expected to maintain a ratio of at least 1% to 2% above the stated minimum.

Certain regulatory capital ratios for the Corporation as of December 31, 2006 are shown below:

Tier 1 Capital to Risk-Weighted Assets…………………………. 9.3%

Total Risk Based Capital to Risk-Weighted Assets……………..11.0%

Tier 1 Leverage Ratio……………………………………………. 7.3%

Dividends. The Federal Reserve's policy is that a bank holding company experiencing earnings weakness should not pay cash dividends exceeding its net income or which could only be funded in ways that weaken the bank holding company's financial health, such as by borrowing. Additionally, the Federal Reserve possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies.

Source of Strength. In accordance with Federal Reserve Board policy, the Corporation is expected to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances in which the Corporation might not otherwise do so.

THE BANK

General Regulatory Supervision. The Bank is a national bank organized under the laws of the United States of America and is subject to the supervision of the OCC, whose examiners conduct periodic examinations of national banks. The Bank must undergo regular on-site examinations by the OCC and must submit quarterly and annual reports to the OCC concerning its activities and financial condition.

The deposits of the Bank are insured by the Bank Insurance Fund ("BIF") administered by the FDIC and are subject to the FDIC's rules and regulations respecting the insurance of deposits. See "--Deposit Insurance."

Lending Limits. Under federal law, the total loans and extensions of credit by a national bank to a borrower outstanding at one time and not fully secured may not exceed 15 percent of the bank's capital and unimpaired surplus. In addition, the total amount of outstanding loans and extensions of credit to any borrower outstanding at one time and fully secured by readily marketable collateral may not exceed 10 percent of the unimpaired capital and unimpaired surplus of the bank (this limitation is separate from and in addition to the above limitation). If a loan is secured by United States obligations, such as treasury bills, it is not subject to the bank's legal lending limit.

Deposit Insurance. Deposits in the Bank are insured by the FDIC up to a maximum amount, which is generally $100,000 per depositor subject to aggregation rules. The Bank is subject to deposit insurance assessment by the FDIC pursuant to its regulations establishing a risk-related deposit insurance assessment system, based upon the institution's capital levels and risk profile. The Bank is also subject to assessment for the Financial Corporation ("FICO") to service the interest on its bond obligations. The amount assessed on individual institutions, including the Bank, by FICO is in addition to the amount paid for deposit insurance according to the risk-related assessment rate schedule. Increases in deposit insurance premiums or changes in risk classification will increase the Bank's cost of funds, and it may not be able to pass these costs on to its customers. The Bank is not currently paying deposit insurance premiums to the FDIC, but was required to pay $23,932 for the FICO assessment for the first quarter in 2007.

Transactions with Affiliates and Insiders. The Bank is subject to limitations on the amount of loans or extensions of credit to, or investments in, or certain other transactions with, affiliates and insiders on the amount of advances to third parties collateralized by the securities or obligations of affiliates. Furthermore, within the foregoing limitations as to amount, each covered transaction must meet specified collateral requirements. Compliance is also required with certain provisions designed to avoid the taking of low quality assets. The Bank is also prohibited from engaging in certain transactions with certain affiliates and insiders unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies.

Extensions of credit by the Bank to its executive officers, directors, certain principal shareholders, and their related interests must:

- be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties; and
- not involve more than the normal risk of repayment or present other unfavorable features.

Dividends. Under federal law, the Bank may pay dividends from its undivided profits in an amount declared by its Board of Directors, subject to prior approval of the OCC if the proposed dividend, when added to all prior dividends declared during the current calendar year, would be greater than the current year's net income and retained earnings for the previous two calendar years.

Federal law generally prohibits the Bank from paying a dividend to the Corporation if the depository institution would thereafter be undercapitalized. The FDIC may prevent an insured bank from paying dividends if the bank is in default of payment of any assessment due to the FDIC. In addition, payment of dividends by a bank may be prevented by the applicable federal regulatory authority if such payment is determined, by reason of the financial condition of such bank, to be an unsafe and unsound banking practice. In addition, the Bank is subject to certain restrictions imposed by the Federal Reserve on extensions of credit to the Corporation, on investments in the stock or other securities of the Corporation, and in taking such stock or securities as collateral for loans.

Branching and Acquisitions. Under federal and Indiana law, the Bank may establish an additional banking location anywhere in Indiana. Federal law also allows bank holding companies to acquire banks anywhere in the United States subject to certain state restrictions, and permits an insured bank to merge with an insured bank in another state without regard to whether such merger is prohibited by state law. Additionally, an out-of-state bank may acquire the branches of an insured bank in another state without acquiring the entire bank if the law of the state where the branch is located permits such an acquisition. Bank holding companies may merge existing bank subsidiaries located in different states into one bank.

Community Reinvestment Act. The Community Reinvestment Act requires that the OCC evaluate the records of the Bank in meeting the credit needs of its local community, including low and moderate income neighborhoods. These factors are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. Failure to adequately meet these criteria could result in the imposition of additional requirements and limitations on the Bank.

Capital Regulations. The OCC has adopted risk-based capital ratio guidelines to which the Bank is subject. The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to differences in risk profiles among banking organizations. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet commitments to four risk weighted categories, with higher levels of capital being required for the categories perceived as representing greater risk.

These guidelines divide a bank's capital into two tiers. The first tier (Tier 1) includes common equity, certain non-cumulative perpetual preferred stock (excluding auction rate issues) and minority interests in equity accounts of consolidated subsidiaries, less goodwill and certain other intangible assets (except mortgage servicing rights and purchased credit card relationships, subject to certain limitations). Supplementary (Tier 2) capital includes, among other items, cumulative perpetual and long-term limited-life preferred stock, mandatory convertible securities, certain hybrid capital instruments, term subordinated debt and the allowance for loan and lease losses, subject to certain limitations, less required deductions. Banks are required to maintain a total risk-based capital ratio of 8%, of which 4% must be Tier 1 capital. The OCC may, however, set higher capital requirements when a bank's particular circumstances warrant. Banks experiencing or anticipating significant growth are expected to maintain capital ratios, including tangible capital positions, well above the minimum levels.

In addition, the OCC established guidelines prescribing a minimum Tier 1 leverage ratio (Tier 1 capital to adjusted total assets as specified in the guidelines). These guidelines provide for a minimum Tier 1 leverage ratio of 3% for banks that meet certain specified criteria, including that they have the highest regulatory rating and are not experiencing or anticipating significant growth. All other banks are required to maintain a Tier 1 leverage ratio of 3% plus an additional cushion of at least 1% to 2% basis points.

Certain actual regulatory capital ratios under the OCC's risk-based capital guidelines for the Bank at December 31, 2006 are shown below:

Tier 1 Capital to Risk-Weighted Assets..............................	9.0%
Total Risk-Based Capital to Risk-Weighted Assets............	10.7%
Tier 1 Leverage Ratio..	7.1%

The federal bank regulators, including the OCC, also have issued a joint policy statement to provide guidance on sound practices for managing interest rate risk. The statement sets forth the factors the federal regulatory examiners will use to determine the adequacy of a bank's capital for interest rate risk. These qualitative factors include the adequacy and effectiveness of the bank's internal interest rate risk management process and the level of interest rate exposure. Other qualitative factors that will be considered include the size of the bank, the nature and complexity of its activities, the adequacy of its capital and earnings in relation to the bank's overall risk profile, and its earning exposure to interest rate movements. The interagency supervisory policy statement describes the responsibilities of a bank's board of directors in implementing a risk management process and the requirements of the bank's senior management in ensuring the effective management of interest rate risk. Further, the statement specifies the elements that a risk management process must contain.

The OCC has also issued final regulations further revising its risk-based capital standards to include a supervisory framework for measuring market risk. The effect of these regulations is that any bank holding company or bank which has significant exposure to market risk must measure such risk using its own internal model, subject to the requirements contained in the regulations, and must maintain adequate capital to support that exposure. These regulations apply to any bank holding company or bank whose trading activity equals 10% or more of its total assets, or whose trading activity equals $1 billion or more. Examiners may require a bank holding company or bank that does not meet the applicability criteria to comply with the capital requirements if necessary for safety and soundness purposes. These regulations contain supplemental rules to determine qualifying and excess capital, calculate risk-weighted assets, calculate market risk equivalent assets and calculate risk-based capital ratios adjusted for market risk.

The Bank is also subject to the "prompt corrective action" regulations, which implement a capital-based regulatory scheme designed to promote early intervention for troubled banks. This framework contains five categories of compliance with regulatory capital requirements, including "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." As of December 31, 2006, the Bank was qualified as "well capitalized." It should be noted that a bank's capital category is determined solely for the purpose of applying the "prompt corrective action" regulations and that the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects. The degree of regulatory scrutiny of a financial institution increases, and the permissible activities of the institution decrease, as it moves downward through the capital categories. Bank holding companies controlling financial institutions can be required to boost the institutions' capital and to partially guarantee the institutions' performance.

<u>Check Clearing for the 21st Century Act</u>. The Federal Reserve adopted final amendments to Regulation CC and its commentary to implement the Check Clearing for the 21st Century Act (the "Check 21 Act"). To facilitate check truncation and electronic check exchange, the Check 21 Act authorizes a new negotiable instrument called a "substitute check" and provides that a properly prepared substitute check is the legal equivalent of the original check for all purposes. A substitute check is a paper reproduction of the original check that can be processed just like the original check. The Check 21 Act does not require any bank to create substitute checks or to accept checks electronically. The Federal Reserve's amendments: (i) set forth the requirements of the Check 21 Act that apply to all banks, including those that choose not to create substitute checks; (ii) provide a model disclosure and model notices relating to substitute checks; and (iii) set forth bank endorsement and identification requirements for substitute checks. The amendments also clarify some existing provisions of the rule and commentary.

USA Patriot Act. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA Patriot Act") is intended to strengthen the ability of U.S. Law Enforcement to combat terrorism on a variety of fronts. The potential impact of the USA Patriot Act on financial institutions is significant and wide-ranging. The USA Patriot Act contains sweeping anti-money laundering and financial transparency laws and requires financial institutions to implement additional policies and procedures with respect to, or additional measures designed to address, any or all of the following matters, among others: money laundering and currency crimes, customer identification verification, cooperation among financial institutions, suspicious activities and currency transaction reporting.

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") represents a comprehensive revision of laws affecting corporate governance, accounting obligations and corporate reporting. Among other requirements, the Sarbanes-Oxley Act established: (i) new requirements for audit committees of public companies, including independence, expertise, and responsibilities; (ii) additional responsibilities regarding financial statements for the chief executive officers and chief financial officers of reporting companies; (iii) new standards for auditors and regulation of audits; (iv) increased disclosure and reporting obligations for reporting companies regarding various matters relating to corporate governance, and (v) new and increased civil and criminal penalties for violation of the securities laws.

Other Regulations.

Federal law extensively regulates other various aspects of the banking business such as reserve requirements. Current federal law also requires banks, among other things to make deposited funds available within specified time periods. In addition, with certain exceptions, a bank and a subsidiary may not extend credit, lease or sell property or furnish any services or fix or vary the consideration for the foregoing on the condition that (i) the customer must obtain or provide some additional credit, property or services from, or to, any of them, or (ii) the customer may not obtain some other credit, property or service from a competitor, except to the extent reasonable conditions are imposed to assure the soundness of credit extended.

An insured bank subsidiary may act as an agent for an affiliated bank or thrift in offering limited banking services (receive deposits, renew time deposits, close loans, service loans and receive payments on loan obligations) both within the same state and across state lines.

Interest and other charges collected or contracted by the Bank are subject to state usury laws and federal laws concerning interest rates. The Bank's loan operations are also subject to federal and state laws applicable to credit transactions, such as the:

- Truth-In-Lending Act and state consumer protection laws governing disclosures of credit terms and prohibiting certain practices with regard to consumer borrowers;
- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;

- Equal Credit Opportunity Act and other fair lending laws, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act of 1978 and Fair and Accurate Credit Transactions Act of 2003, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Practices Act, governing the manner in which consumer debts may be collected by collection agencies; and rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The deposit operations of the Bank also are subject to the:

- Customer Information Security Guidelines. The federal bank regulatory agencies have adopted final guidelines (the "Guidelines") for safeguarding confidential customer information. The Guidelines require each financial institution, under the supervision and ongoing oversight of its Board of Directors, to create a comprehensive written information security program designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazards to the security or integrity of such information; protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer; and implement response programs for security breaches.
- Electronic Funds Transfer Act, and Regulation E. The Electronic Funds Transfer Act, which is implemented by Regulation E, governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking service.
- Gramm-Leach-Bliley Act, Fair and Accurate Credit Transactions Act. The Gramm-Leach-Bliley Act and the Fair and Accurate Credit Transactions Act and the implementing regulations govern consumer financial privacy, provide disclosure requirements and restrict the sharing of certain consumer financial information with other parties.

The federal banking agencies have established guidelines which prescribe standards for depository institutions relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings, compensation fees and benefits, and management compensation. The agencies may require an institution which fails to meet the standards set forth in the guidelines to submit a compliance plan. Failure to submit an acceptable plan or adhere to an accepted plan may be grounds for further enforcement action.

Enforcement Powers. Federal regulatory agencies may assess civil and criminal penalties against depository institutions and certain "institution-affiliated parties," including management, employees, and agents of a financial institution, as well as independent contractors and consultants such as attorneys and accountants and others who participate in the conduct of the financial institution's affairs.

In addition, regulators may commence enforcement actions against institutions and institution-affiliated parties. Possible enforcement actions include the termination of deposit insurance. Furthermore, regulators may issue cease-and-desist orders to, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnifications or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts, or take other actions as determined by the regulator to be appropriate.

Effect of Governmental Monetary Policies. The Corporation's earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve Bank's monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve Board have major effects upon the levels of bank loans, investments and deposits through its open market operations in United States government securities and through its regulation of the discount rate on borrowings of member banks and the reserve requirements against member bank deposits. It is not possible to predict the nature or impact of future changes in monetary and fiscal policies.

Available Information

The Corporation files annual reports on Form 10-K, quarterly reports on Form 10-Q, proxy statements and other information with the Securities and Exchange Commission. Such reports, proxy statements and other information can be read and copied at the public reference facilities maintained by the Securities and Exchange Commission at the Public Reference Room, 100 F Street, NE, Washington, D.C. 20549. Information regarding the operation of the Public Reference Room may be obtained by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission maintains a web site (http://www.sec.gov) that contains reports, proxy and information. The Corporation's filings are also accessible at no cost on the Corporation's website at www.nbofi.com.

Item 1A. Risk Factors

The Corporation Is Subject To Interest Rate Risk

Interest and fees on loans and securities, net of interest paid on deposits and borrowings, are a large part of the Corporation's net income. Interest rates are key drivers of the Corporation's net interest margin and subject to many factors beyond the control of management. As interest rates change, net interest income is affected. Rapid increases in interest rates in the future could result in interest expense increasing faster than interest income because of mismatches in financial instrument maturities. Further, substantially higher interest rates generally reduce loan demand and may result in slower loan growth. Decreases or increases in interest rates could have a negative effect on the spreads between the interest rates earned on assets and the rates of interest paid on liabilities, and therefore decrease net interest income.

The Corporation Is Subject To Lending Risk

There are inherent risks associated with the Corporation's lending activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the markets where the Corporation operates as well as those across Indiana and the United States. Increases in interest rates and/or weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans. The Corporation is also subject to various laws and regulations that affect its lending activities. Failure to comply with applicable laws and regulations could subject the Corporation to regulatory enforcement action that could result in the assessment of significant civil money penalties against the Corporation.

The Corporation's Allowance for Loan Losses May Be Insufficient

The Corporation maintains an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, that represents management's best estimate of probable losses that are inherent within the existing portfolio of loans. The level of the allowance reflects management's continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires the Corporation to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of the Corporation's control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review the Corporation's allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan losses, the Corporation will need additional provisions to increase the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation Operates In A Highly Competitive Industry And Market Area

The Corporation faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have more financial resources. Such competitors include banks and many other types of financial institutions, including, without limitation, savings and loans, credit unions, finance companies, brokerage firms, insurance companies, factoring companies and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of the Corporation's competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than the Corporation can.

The Corporation's ability to compete successfully depends on a number of factors, including, among other things:

- The ability to develop, maintain and build upon long-term customer relationships based on top quality service, and safe, sound assets.
- The ability to expand the Corporation's market position.
- The scope, relevance and pricing of products and services offered to meet customer needs and demands.
- The rate at which the Corporation introduces new products and services relative to its competitors.
- Customer satisfaction with the Corporation's level of service.
- Industry and general economic trends.

Failure to perform in any of these areas could significantly weaken the Corporation's competitive position, which could adversely affect the Corporation's growth and profitability, which, in turn, could have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation Is Subject To Extensive Government Regulation And Supervision

The Corporation, primarily through the Bank, is subject to extensive federal regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not shareholders. These regulations affect the Corporation's lending practices, capital structure, investment practices, and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Corporation in substantial and unpredictable ways. Such changes could subject the Corporation to additional costs, limit the types of financial services and products the Corporation may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on the Corporation's business, financial condition and results of operations. While the Corporation has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur.

The Corporation's Controls And Procedures May Fail Or Be Circumvented

Management regularly reviews and updates the Corporation's internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Corporation's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Corporation's business, results of operations and financial condition.

The Corporation Is Dependent On Certain Key Management And Staff

The Corporation relies on key personnel to manage and operate its business. The loss of key staff may adversely affect our ability to maintain and manage these portfolios effectively, which could negatively affect our revenues. In addition, loss of key personnel could result in increased recruiting and hiring expenses, which could cause a decrease in the Corporation's net income.

The Corporation's Information Systems May Experience An Interruption Or Breach In Security

The Corporation relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Corporation's customer relationship management, general ledger, deposit, loan and other systems. While the Corporation has policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of its information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of the Corporation's information systems could damage the Corporation's reputation, result in a loss of customer business, subject the Corporation to additional regulatory scrutiny, or expose the Corporation to civil litigation and possible financial liability, any of which could have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation Has Opened New Offices

The Corporation has placed a strategic emphasis on expanding the Bank's banking office network. Executing this strategy carries risks of slower than anticipated growth in the new offices, which require a significant investment of both financial and personnel resources. Lower than expected loan and deposit growth in new offices can decrease anticipated revenues and net income generated by those offices, and opening new offices could result in more additional expenses than anticipated and divert resources from current core operations.

The Corporation Continually Encounters Technological Change

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. The Corporation's future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Corporation's operations. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on the Corporation's business and, in turn, the Corporation's financial condition and results of operations.

Item 1B. Unresolved Staff Comments

Not Applicable.

Item 2. Property

The Bank owns the downtown office building which houses its main office as well as the Corporation's main office at 107 North Pennsylvania Street, Indianapolis, Indiana. The Bank and the Corporation utilize seven floors of this ten-story building, and lease the remainder to other business enterprises.

The Bank opened its first neighborhood bank office in February 1995 at 84th and Ditch Road. The Bank also opened a neighborhood bank office at 82nd and Bash Road on the northeast side of Indianapolis in December 1995. The Bank owns the land and the premises for both of these offices. In March 1996, the Bank opened an office in the Chamber of Commerce building at 320 N. Meridian Street in the downtown Indianapolis area. The Bank leases the premises at this banking office. In March 1998, the Bank opened an office at 4930 North Pennsylvania Street and leased the premises at this banking office. On January 2, 2007, the Bank purchased the property at 4930 North Pennsylvania Street. In June 1999, the Bank opened an office in the One America Office Complex located at One American Square in the downtown Indianapolis area. The Bank leases the premises at this banking office. In September 2000, the Bank opened an office at 650 East Carmel Drive in Carmel. This office is located in

Hamilton County which is north of Indianapolis. The Bank leases the premises at this banking office. In October 2001, the Bank opened an office at 1675 West Smith Valley Road in Greenwood, which was leased. During 2005, the Bank upgraded the Greenwood Bank Office to a full-size, freestanding building located at 1689 West Smith Valley Road. The Bank owns the land and the premises for this office. In January 2005, the Bank opened an office located at 106th and Michigan Road and the Bank owns the premises for this office and leases the land on which the building is constructed.

The Bank has installed two remote ATMs at the Indianapolis City Market, a remote ATM at Parkwood Crossing, and Meridian Mark II Office Complex. These remote ATMs provide additional banking convenience for the customers of the Bank, and generate an additional source of fee income for the Bank.

The Corporation's properties are in good physical condition and are considered by the Corporation to be adequate to meet the needs of the Corporation and the Bank and the banking needs of the customers in the communities served.

Item 3. Legal Proceedings

Neither the Corporation nor the Bank are involved in any material pending legal proceedings at this time, other than routine litigation incidental to its business.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market Price for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Shares of the common stock of the Corporation are not traded on any national or regional exchange or in the over-the-counter market. Accordingly, there is no established market for the common stock. There are occasional trades as a result of private negotiations which do not always involve a broker or a dealer. The table below lists the high and low prices per share of which management is aware of during 2006 and 2005.

	Price per Share			
Quarter	High		Low	
	2006	2005	2006	2005
First Quarter	$41.57	$36.55	$38.00	$34.50
Second Quarter	$44.00	$37.69	$42.90	$36.49
Third Quarter	$45.84	$38.77	$43.90	$38.06
Fourth Quarter	$47.38	$42.00	$45.84	$38.77

There may have been other trades at other prices of which management is not aware. Management does not have knowledge of the price paid in all transactions and has not verified the accuracy of those prices that have been reported to it. Because of the lack of an established market for the common shares of the Corporation, these prices would not necessarily reflect the prices which the shares would trade in an active in an active market.

The Corporation had 636 shareholders on record as of March 23, 2007.

The Corporation has not declared or paid any cash dividends on its shares of common stock since its organization in 1993. The Corporation and the Bank anticipate that earnings will be retained to finance the Bank's growth in the immediate future. Future dividend payments by the Corporation, if any, will be dependent upon dividends paid by the Bank, which are subject to regulatory limitations, earnings, general economic conditions, financial condition, capital requirements, and other factors as may be appropriate in determining dividend policy.

During the fourth quarter of 2006 the Corporation sold common stock pursuant to the exercise of stock options to employees and directors in the aggregate of 21,750 shares for $347,732. As previously reported in the Corporation's prior filings with the Securities and Exchange Commission, the Corporation sold pursuant to the exercise by employees and directors of stock options an aggregate of 4,433 shares for $90,908 during the third quarter of 2006, an aggregate of 6,000 shares for $90,000 during the second quarter of 2006, and an aggregate of 11,500 shares for $201,250 during the first quarter of 2006. All of these shares were sold in private placements pursuant to Section 4(2) of the Securities Act of 1933.

In 2003, the Board of Directors of the Corporation authorized and announced a repurchase program entitled "Program One" and "Program Two". Program One covers employees and directors and was initially set to expire December 2005. During the fourth quarter of 2005, the Board authorized the extension of Program One until December 31, 2008 unless terminated earlier by the Board of Directors. The Board of Directors also authorized an addition $1,900,000 to be allocated to Program One. Under Program One, the Corporation may spend up to $7,400,000 in individually negotiated transactions to repurchase its shares from employees and directors who wish to sell their stock, of which $1,536,186 is still available. Program Two covers all other shareholders and was set to expire December 2005 unless terminated earlier by the Board of Directors. During the fourth quarter of 2005, the Board authorized the extension of Program Two until December 31, 2008 unless terminated earlier by the Board of Directors. The Board of Directors also authorized an additional $2,600,000 to be allocated to Program Two. Under Program Two, the Corporation may spend up to $10,200,000 in individually negotiated transactions to repurchase its shares from shareholders who wish to sell, of which $3,629,903 is available.

During 2006, the Corporation repurchased in the aggregate, 42,989 shares for an aggregate cost of $1,936,368. The following table provides information with respect to shares repurchased by the Corporation during fourth quarter 2006:

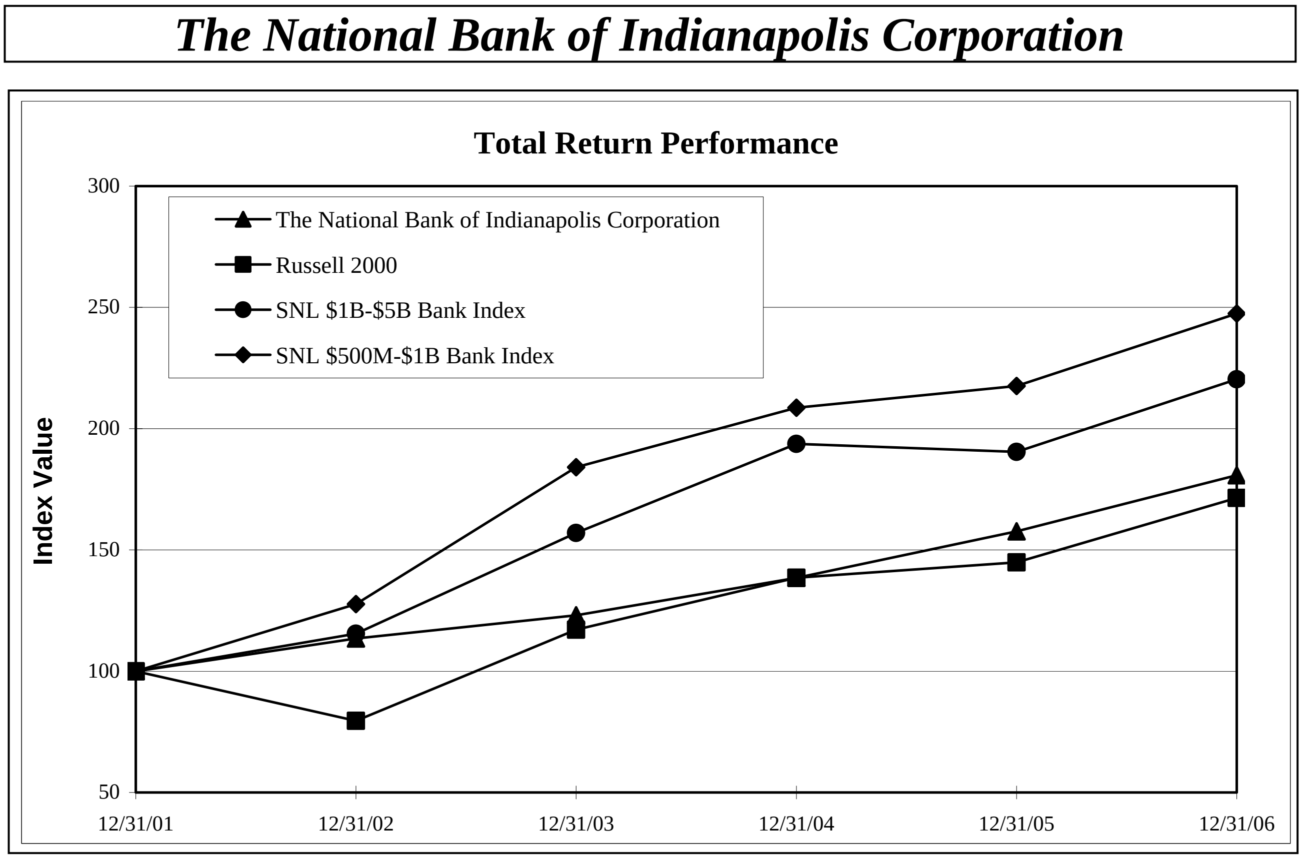
Period	Total Number of Shares Purchased during 4th quarter 2006	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
10/01/06 – 10/31/06	15,030	$46.33	15,030	$5,558,971
11/01/06 – 11/30/06	4,100	$46.75	4,100	$5,367,296
12/01/06 – 12/31/06	4,250	$47.34	4,250	$5,166,088
Total	23,380	*	23,380	

* The weighted average price per share for the period October 2006 through December 2006 was $46.59

** All shares repurchased by the Corporation in 2006 were completed pursuant to Program One and Program Two.

Five Year Total Shareholder Return

The following indexed graph indicates the Corporation's total return to its shareholders on its common stock for the past five years, assuming dividend reinvestment, as compared to total return for the Russell 2000 Index and the Peer Group Index (which is a line-of-business index prepared by an independent third party consisting of stock of banks with assets between $500 million and $1 billion). The comparison of total return on investment for each of the periods assumes that $100 was invested on January 1, 2001, in each of the Corporation, the Russell 2000 Index, and the Peer Group Index.



	Period Ending					
Index	**12/31/01**	**12/31/02**	**12/31/03**	**12/31/04**	**12/31/05**	**12/31/06**
The National Bank of Indianapolis Corporation	100.00	113.46	123.08	138.46	157.69	180.77
Russell 2000	100.00	79.52	117.09	138.55	144.86	171.47
SNL $1B-$5B Bank Index	100.00	115.44	156.98	193.74	190.43	220.36
SNL $500M-$1B Bank Index	100.00	127.67	184.09	208.62	217.57	247.44

Item 6. Selected Financial Data

The following table sets forth certain consolidated information concerning the Corporation for the periods and dates indicated and should be read in connection with, and is qualified in its entirety by, the detailed information and consolidated financial statements and related notes set forth in the Corporation's audited financial statements included elsewhere herein (in 000's), except per share data.

	Year Ended December 31				
	2006	2005	2004	2003	2002
Consolidated Operating Data:					
Interest income	$ 61,375	$ 50,847	$ 38,524	$ 34,560	$ 35,095
Interest expense	29,565	20,906	12,962	11,950	14,061
Net interest income	31,811	29,941	25,561	22,610	21,034
Provision for loan losses	1,086	2,085	1,320	1,200	1,500
Net interest income after provision for loan losses	30,725	27,856	24,241	21,410	19,534
Losses on sale of securities, (net)	-	-	(84)	(37)	-
Other operating income	8,360	7,461	7,272	7,422	6,985
Other operating expenses	28,598	25,176	22,613	20,418	18,962
Income before taxes	10,486	10,141	8,816	8,377	7,557
Federal and state income tax	3,424	3,878	3,135	3,213	3,000
Net income	7,062	6,263	5,681	5,164	4,557
Consolidated Balance Sheet Data (at end of period):					
Total assets	$ 1,034,432	$ 928,462	$ 880,914	$ 812,599	$ 726,514
Total investment securities (including stock in Federal Banks)	150,137	157,471	151,799	125,247	117,485
Total loans	744,538	684,488	656,453	597,063	528,911
Allowance for loan losses	(8,513)	(8,346)	(7,796)	(8,030)	(7,227)
Deposits	875,084	774,316	693,431	637,537	544,343
Shareholders' equity	59,785	51,583	46,544	42,678	41,247
Weighted basic average shares outstanding	2,302	2,299	2,303	2,343	2,289
Per Share Data:					
Diluted net income per common share (1)	$ 2.94	$ 2.62	$ 2.37	$ 2.08	$ 1.88
Cash dividends declared	0	0	0	0	0
Book value (2)	25.88	22.11	19.81	18.14	16.89
Other Statistics and Operating Data:					
Return on average assets	0.7%	0.7%	0.7%	0.7%	0.7%
Return on average equity	12.7%	12.8%	12.8%	12.1%	12.2%
Net interest margin (3)	3.4%	3.3%	3.1%	3.1%	3.2%
Average loans to average deposits	85.9%	85.5%	89.0%	95.7%	90.8%
Allowance for loan losses to loans at end of period	1.1%	1.2%	1.2%	1.3%	1.4%
Allowance for loan losses to non-performing loans	119.0%	228.8%	255.1%	164.8%	223.8%
Non-performing loans to loans at end of period	1.0%	0.5%	0.5%	0.8%	0.6%
Net charge-offs to average loans	0.1%	0.2%	0.3%	0.1%	0.1%
Number of offices	9	9	9	8	8
Number of full and part-time employees	221	211	196	180	176
Number of Shareholders of Record	639	601	632	645	647
Capital Ratios:					
Average shareholders' equity to average assets	5.7%	5.2%	5.2%	5.6%	5.4%
Equity to assets	5.8%	5.6%	5.3%	5.3%	5.7%
Total risk-based capital ratio (Bank only)	10.7%	10.9%	10.5%	10.2%	10.1%

(1) Based upon weighted average shares outstanding during the period.
(2) Based on Common Stock outstanding at the end of the period.
(3) Net interest income as a percentage of average interest-earning assets.

Item 7.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the Corporation relates to the years ended December 31, 2006, 2005 and 2004 and should be read in conjunction with the Corporation's Consolidated Financial Statements and Notes thereto included elsewhere herein.

Overview

The primary source of the Bank's revenue is net interest income from loans and deposits and fees from financial services provided to customers. Overall economic factors including market interest rates, business spending, and consumer confidence, as well as competitive conditions within the marketplace tend to influence business volumes.

The Corporation monitors the impact of changes in interest rates on its net interest income. One of the primary goals of asset/liability management is to maximize net interest income and the net value of future cash flows within authorized risk limits. At December 31, 2006 the interest rate risk position of the Corporation was liability sensitive. Maintaining a liability sensitive interest rate risk position means that net income should decrease as rates rise and increase as rates fall.

Mortgage banking income increased from 2005 to 2006 due to more net gains recorded on the sale of mortgage loans which was the result of a more stable interest rate environment in 2006.

There was a significant decrease in mortgage loan refinancing during 2004 and 2005 resulting in less sales by the Corporation causing a decrease in mortgage banking income.

Net income is affected by the provision for loan losses. Management performs an evaluation as to the amounts required to maintain an allowance adequate to provide for probable losses inherent in the loan portfolio. The level of this allowance is dependent upon the total amount of past due and non-performing loans, general economic conditions and management's assessment of probable losses based upon internal credit evaluations of loan portfolios and particular loans. It has been our experience that improved economic strength generally will translate into better credit quality in the banking industry. Management believes that the allowance for loan losses is adequate to absorb credit losses inherent in the loan portfolio at December 31, 2006.

The risks and challenges that management believes will be important during 2007 are price competition for loans and deposits by new market entrants as well as established competitors, and continued lower mortgage loan volume as compared to 2005 and 2004, but comparable to 2006, leading to lower gains on sales of mortgage loans.

Results of Operations

Year Ended December 31, 2006 Compared to the Year Ended December 31, 2005 and Year Ended December 31, 2005 Compared to the Year Ended December 31, 2004

The Corporation's results of operations depend primarily on the level of its net interest income, its non-interest income and its operating expenses. Net interest income depends on the volume of and rates associated with interest earning assets and interest bearing liabilities which results in the net interest spread. The Corporation had net income of $7,062,225 for the year ended December 31, 2006 compared to net income of $6,262,526 for the year ended December 31, 2005 and net income of $5,681,049 for the year ended December 31, 2004**.** This change is primarily due to the growth of the Bank allowing for more interest earning assets and a wider spread between the yield earned on loans and the yield paid on deposits due to higher short-term interest rates in 2006 compared to the same period during 2005 and 2004.

The Bank experienced growth during the past three years. Total assets increased $105,969,981 or 11% to $1,034,431,835 for the year ended December 31, 2006 from $928,461,854 for the year ended December 31, 2005 and total assets increased from $880,913,779 for the year ended December 31, 2004. This growth is in part due to an increase in customers as a result of local bank mergers/consolidations, the addition of experienced corporate and private bankers to the staff, and banking centers.

Net Interest Income

The following table details the components of net interest income for the years ended December 31, 2006, 2005, and 2004 (in 000's):

	Year ended December 31, 2006	Year ended December 31, 2005	$ Change	% Change	Year ended December 31, 2005	Year ended December 31, 2004	$ Change	% Change
Interest income:								
Interest and fees on loans	$ 52,724	$ 43,256	$ 9,468	21.9%	$ 43,256	$ 33,306	$ 9,950	29.9%
Interest on investment securities	6,690	6,154	536	8.7%	6,154	4,403	1,751	39.8%
Interest on federal funds sold	1,849	1,291	558	43.2%	1,291	725	566	78.1%
Interest on reverse repurchase agreements	112	146	(34)	-23.3%	146	90	56	62.2%
Total interest income	$ 61,375	$ 50,847	$ 10,528	20.7%	$ 50,847	$ 38,524	$ 12,323	32.0%
Interest expense:								
Interest on deposits	$ 24,542	$ 16,110	$ 8,432	52.3%	$ 16,110	$ 8,975	$ 7,135	79.5%
Interest on repurchase agreements	2,128	1,528	600	39.3%	1,528	570	958	168.1%
Interest on FHLB advances	1,028	1,497	(469)	-31.3%	1,497	1,775	(278)	-15.7%
Interest on long term debt	1,866	1,771	95	5.4%	1,771	1,642	129	7.8%
Total interest expense	$ 29,564	$ 20,906	$ 8,658	41.4%	$ 20,906	$ 12,962	$ 7,944	61.3%
Net interest income	$ 31,811	$ 29,941	$ 1,870	6.2%	$ 29,941	$ 25,562	$ 4,379	17.1%

The increase in interest income is due to higher yields on federal funds sold and the investment securities and loan portfolios. Also contributing to the increase was higher average balances in the loan portfolio. Over the course of 2006, the prime interest rate increased by 100 basis points to 8.25% as of December 31, 2006 from 7.25% as of December 31, 2005 and from 5.25% as of December 31, 2004.

The increase in interest expense is due to an overall increase in the yield paid on deposits as well as growth in time deposits over $100,000. The increase is partially offset by a decrease in interest paid on FHLB advances. The outstanding balance on FHLB advances as of December 31, 2006 was $14,000,000 compared to $24,000,000 as of December 31, 2005 and $32,000,000 as of December 31, 2004.

Net interest income increased for the year ended December 31, 2006 compared to the years ended December 31, 2005 and 2004. The overall increase was 6.2% and 17.1% between 2006 and 2005 and between 2005 and 2004, respectively. The overall increase in net interest income was lower between 2006 and 2005 because the prime rate increased 100bp compared to 200bp between 2005 and 2004.

The following table details average balances, interest income / expense and average rates / yields for the Bank's earning assets and interest bearing liabilities for the years ended December 31, 2006, 2005 and 2004 (in 000's):

	2006			2005			2004		
	Average Balance	Interest Income/ Expense	Average Rate/ Yield	Average Balance	Interest Income/ Expense	Average Rate/ Yield	Average Balance	Interest Income/ Expense	Average Rate/ Yield
Assets:									
Federal funds sold	$ 46,721	$ 1,849	3.96%	$ 43,508	$ 1,291	2.97%	$ 42,637	$ 725	1.70%
Reverse repurchase agreements	2,488	112	4.50%	5,000	146	2.92%	9,180	90	0.98%
Investments and overnight time	175,783	6,690	3.81%	186,971	6,154	3.29%	159,795	4,403	2.76%
Loans (gross)	702,160	52,724	7.51%	668,317	43,256	6.47%	612,096	33,306	5.44%
Total earning assets	$ 927,152	$ 61,375	6.62%	$ 903,796	$ 50,847	5.63%	$ 823,708	$ 38,524	4.68%
Non-earning assets	45,223			42,777			39,950		
Total assets	$ 972,375			$ 946,573			$ 863,658		
Liabilities:									
Interest bearing DDA	$ 96,306	$ 1,522	1.58%	$ 94,578	$ 1,076	1.14%	$ 84,954	$ 665	0.78%
Savings	400,975	16,171	4.03%	402,131	10,891	2.71%	333,840	4,910	1.47%
CD's under $100,000	62,924	2,664	4.23%	56,876	1,887	3.32%	56,540	1,695	3.00%
CD's over $100,000	78,900	3,549	4.50%	54,524	1,805	3.31%	49,265	1,323	2.69%
Individual retirement accounts	15,068	636	4.22%	13,277	451	3.40%	12,705	382	3.01%
Repurchase agreements	53,683	2,128	3.96%	62,166	1,528	2.46%	74,794	570	0.76%
FHLB advances/other	20,458	1,028	5.02%	29,170	1,497	5.13%	34,317	1,775	5.17%
Subordinated debt	5,000	378	7.56%	5,000	283	5.66%	3,992	154	3.86%
Long term debt	13,918	1,488	10.69%	13,918	1,488	10.69%	13,918	1,488	10.69%
Total interest bearing liabilities	$ 747,232	$ 29,564	3.96%	$ 731,640	$ 20,906	2.86%	$ 664,325	$ 12,962	1.95%
Non-interest bearing liabilities	163,465			160,713			150,357		
Other liabilities	6,136			5,287			4,460		
Total liabilities	$ 916,833			$ 897,640			$ 819,142		
Equity	55,542			48,933			44,516		
Total Liabilities & Equity	$ 972,375			$ 946,573			$ 863,658		
Recap:									
Interest Income		$ 61,375	6.62%		$ 50,847	5.63%		$ 38,524	4.68%
Interest Expense		29,564	3.96%		20,906	2.86%		12,962	1.95%
Net Interest Income/Spread		$ 31,811	2.66%		$ 29,941	2.77%		$ 25,562	2.73%
Contribution of Non-Interest Bearing Funds			0.77%			0.54%			0.38%
Net Interest Margin			3.43%			3.31%			3.10%

NOTE: Average balances computed using daily actual balances. The average loan balance includes non-accrual loans and the interest recognized prior to becoming non-accrual is reflected in the interest income for loans. Interest income on loans includes loan fees of $449,230, $537,955 and $532,937, for the period ending December 31, 2006, 2005 and 2004, respectively.

The following table sets forth an analysis of volume and rate changes in interest income and interest expense of the Corporation's average earning assets and average interest-bearing liabilities. The table distinguishes between the changes related to average outstanding balances of assets and liabilities (changes in volume holding the initial average interest rate constant) and the changes related to average interest rates (changes in average rate holding the initial average outstanding balance constant). The change in interest due to both volume and rate has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

Net Interest Income Changes Due to Volume and Rates (in 000's):

	2006 Changes from 2005			2005 Changes from 2004			2004 Changes from 2003		
	Net Change	Due to Rate	Due to Volume	Net Change	Due to Rate	Due to Volume	Net Change	Due to Rate	Due to Volume
Interest earning assets:									
Federal funds sold	$ 558	$ 431	$ 127	$ 566	$ 540	$ 26	$ 293	$ 247	$ 46
Reverse repurchase agreements	(34)	79	(113)	56	178	(122)	(8)	10	(18)
Investments and overnight time	536	962	(426)	1,751	857	894	1,383	165	1,218
Loans	9,468	6,927	2,541	9,950	6,311	3,639	2,296	(398)	2,694
TOTAL	$ 10,528	$ 8,399	$ 2,129	$ 12,323	$ 7,886	$ 4,437	$ 3,964	$ 24	$ 3,940
Interest bearing liabilities:									
Demand deposits	$ 446	$ 419	$ 27	$ 411	$ 302	$ 109	$ 89	$ (34)	$ 123
Savings deposits	5,280	5,327	(47)	5,981	4,131	1,850	1,146	282	864
CDs under $100,000	777	521	256	192	181	11	(57)	(129)	72
CDs over $100,000	1,744	648	1,096	482	308	174	137	(100)	237
Individual retirement accounts	185	109	76	69	50	19	(8)	(34)	26
Repurchase agreements	600	936	(336)	958	1,268	(310)	189	163	26
FHLB advances	(469)	(31)	(438)	(278)	(14)	(264)	(639)	(32)	(607)
Subordinated debt	95	95	-	129	72	57	111	1	110
Long term debt	-	-	-	-	-	-	44	(1)	45
TOTAL	$ 8,658	$ 8,024	$ 634	$ 7,944	$ 6,298	$ 1,646	$ 1,012	$ 116	$ 896
Net change in net interest income	$ 1,870	$ 375	$ 1,495	$ 4,379	$ 1,588	$ 2,791	$ 2,952	$ (92)	$ 3,044

NOTE: Due to Rate Increase was calculated by taking the change in the rate times the prior year average balance. Due to volume increase was calculated by taking the change in average balance times the prior year rate.

Interest earned on federal funds sold increased for the year ended December 31, 2006 compared to the year ended December 31, 2005 and year ended December 31, 2004**.** The increase is due to an increase in average balance for December 31, 2006 as compared to the years ended December 31, 2005 and 2004, and an increase in interest rates during 2006 as compared to 2005 and 2004. The weighted average rate for the year ended December 31, 2006 was 3.96% compared to a weighted average rate of 2.97% and 1.70% for years ended December 31, 2005 and 2004, respectively.

Interest on reverse repurchase agreements decreased for the year ended December 31, 2006 as compared to the year ended December 31, 2005, but increased as compared to the year ended December 31, 2004. The average balance for reverse repurchase agreements was $2,488,000, $5,000,000, and $9,180,000 for the years ended December 31, 2006, 2005, 2004, respectively. The weighted average yield on reverse repurchase agreements for the year ended December 31, 2006 was 4.50% as compared to a weighted average yield of 2.92% and 0.98% for the years ended December 31, 2005 and 2004, respectively.

Investment portfolio income increased for the year ended December 31, 2006 compared to the years ended December 31, 2005 and 2004. The increase is mainly due to an increase in interest rates in 2006 as compared to previous years. The weighted average rate of the investment portfolio was 3.81% for the year ended December 31, 2006 compared to 3.29% and 2.76% for the years ended December 31, 2005 and 2004, respectively.

Interest on loans increased for the year ended December 31, 2006 compared to the years ended December 31, 2005 and 2004. Average total loans for the year ended December 31, 2006 increased compared to the years ended December 31, 2005 and 2004. The loan portfolio produces the highest yield of all earning assets. The weighted average yield of the loan portfolio for the year ended December 31, 2006 was 7.51% compared to 6.47% and 5.44% for the years ended December 31, 2005 and 2004, respectively. The increased loan growth is the result of new clients and the addition of experienced corporate bankers to the staff.

Total interest expense increased for the year ended December 31, 2006 compared to the years ended December 31, 2005 and 2004. The increase in 2006 as compared to 2005 and 2004 is due primarily to an increase in the interest rates during the 2006 and an increase in the average balances of certificates of deposit.

Total average interest bearing liabilities for the year ended December 31, 2006 increased compared to the years ended December 31, 2005 and 2004. The average cost of interest bearing liabilities for the year ended December 31, 2006 was approximately 3.96% as compared to 2.86% for the year ended December 31, 2005 and 1.95% for December 31, 2004. This rate increase is due to an overall interest rate increase in the market.

Provision for Loan Losses

The amount charged to the provision for loan losses by the Bank is based on management's evaluation as to the amounts required to maintain an allowance adequate to provide for probable losses inherent in the loan portfolio. The level of this allowance is dependent upon the total amount of past due and non-performing loans, general economic conditions and management's assessment of probable losses based upon internal credit evaluations of loan portfolios and particular loans. Loans are principally to borrowers in central Indiana.

The provision for loan losses was $1,086,000 for the year ended December 31, 2006 compared to $2,085,000 and $1,320,000 for the years ended December 31, 2005 and 2004, respectively. The decrease in the provision for loan losses is due to an overall improvement in loan quality and significant commercial loan and residential mortgage recoveries. Based on management's risk assessment and evaluation of the probable losses of the loan portfolio, management believes that the current allowance for loan losses is adequate to provide for probable losses in the loan portfolio.

	Twelve months ended December 31,				
	2006	2005	2004	2003	2002
Beginning of Period	$ 8,346,390	$ 7,795,803	$ 8,029,596	$ 7,227,000	$ 5,986,965
Provision for loan losses	1,086,000	2,085,000	1,320,000	1,200,000	1,500,000
Losses charged to the reserve					
Commercial	1,093,579	1,317,743	1,133,994	506,413	207,716
Commercial mortgage	191,292	-	-	-	-
Residential mortgage	121,433	447,182	280,394	1,297	21,800
Consumer	50,474	5,070	132,993	2,185	2,052
Credit cards	28,463	50,125	65,421	26,922	53,661
	1,485,241	1,820,120	1,612,802	536,816	285,229
Recoveries					
Commercial	412,028	258,920	16,247	121,918	17,024
Residential mortgage	153,888	26,000	26,836	16,438	-
Consumer	-	787	12,354	105	266
Credit Cards	33	-	3,572	950	7,974
	565,949	285,707	59,009	139,412	25,264
End of Period	$ 8,513,098	$ 8,346,390	$ 7,795,803	$ 8,029,596	$ 7,227,000
Allowance as a % of Loans	1.14%	1.22%	1.19%	1.34%	1.37%

Other Operating Income

The following table details the components of other operating income for the years ended December 31, 2006, 2005, and 2004 (in 000's):

	Year ended December 31 2006	Year ended December 31 2005	$ Change	% Change	Year ended December 31 2005	Year ended December 31 2004	$ Change	% Change
Wealth management	$ 3,716	$ 3,097	$ 619	20.0%	$ 3,097	$ 2,464	$ 633	25.7%
Service charges and fees on deposit accounts	1,713	1,834	(121)	-6.6%	1,834	2,131	(297)	-13.9%
Building rental income	451	450	1	0.2%	450	485	(35)	-7.2%
Mortgage banking income	332	313	19	6.1%	313	564	(251)	-44.5%
Interchange income	793	671	122	18.2%	671	594	77	13.0%
Net losses on sale of securities	-	-	-	0.0%	-	(84)	84	100.0%
Other	1,355	1,096	259	23.6%	1,096	1,034	62	6.0%
Total operating income	$ 8,360	$ 7,461	$ 899	12.0%	$ 7,461	$ 7,188	$ 273	3.8%

Other operating income increased for the year ended December 31, 2006 compared to the years ended December 31, 2005 and 2004. There are several factors that contribute to the overall increase.

Wealth Management fees increased for the year ended December 31, 2006 compared to the years ended December 31, 2005 and 2004. The increase is attributable to the overall price appreciation in the stock and treasury markets, an increase in assets under management and an increase in fees collected for estate administration and tax return preparation.

Service charges and fees on deposit accounts decreased for the year ended December 31, 2006 compared to the years ended December 31, 2005 and 2004. The decrease is attributable to an increase in the earnings credit rate paid on business demand deposits which decreases the service charges assessed.

Mortgage banking income increased for the year ended December 31, 2006 compared to the year ended December 31, 2005. Net gain on sale of mortgage loans increased for the year ended December 31, 2006 to $156,583 compared to $82,493 and $157,145 for the years ended December 31, 2005 and 2004. During 2004 and 2005, long term the interest rates remained steady and mortgage originations decreased resulting in decreased mortgage sales. The Mortgage Division originated approximately $33 million in mortgage loans, while selling over $16 million to the secondary market during 2006. During 2005, the Mortgage Division originated in excess of $33 million in mortgage loans, while selling over $18 million to the secondary market. When a mortgage loan is sold, a mortgage servicing right ("MSR") is recorded as an asset on the balance sheet. The value of the MSRs is sensitive to changes in interest rates. In a low rate environment, mortgage loan refinancings generally increase, causing actual and expected loan prepayments to increase, which drives down the value of existing MSRs. Conversely, as interest rates rise, mortgage loan refinancings generally decline, causing actual and expected loan prepayments to decrease, which drives up the value of the MSRs. During 2006, the Corporation recorded a partial recovery of previous period market value adjustments of the mortgage servicing rights due to higher interest rates which caused a significant slow down in mortgage refinances and prepayments of existing mortgages**.** As of December 31, 2006, a valuation reserve of $59,128 was recorded for mortgage servicing rights as compared to a valuation reserve of $182,218 at December 31, 2005.

Interchange income increased for the year ended December 31, 2006 compared to the years ended December 31, 2005 and 2004. The increase is attributable to higher transaction volumes for debit and credit cards in 2006 compared to previous years.

Other income increased for the year ended December 31, 2006 compared to the years ended December 31, 2005 and 2004. The increase is primarily due to income recorded from the purchase of a Bank Owned Life Insurance Policy during the third quarter of 2006.

During 2006 and 2005, there were no sales of available for sale securities compared to a net loss on the sale of two available for sale securities recorded during the first quarter of 2004. The securities were replaced with higher yielding investments in 2004 to place the portfolio in a better position for rising interest rates for asset/liability purposes.

Other Operating Expenses

The following table details the components of other operating expenses for the years ended December 31, 2006, 2005, and 2004 (in 000's):

	Twelve Months December 31, 2006	Twelve Months December 31, 2005	$ Change	% Change	Twelve Months December 31, 2005	Twelve Months December 31, 2004	$ Change	% Change
Salaries, wages and employee benefits	$ 18,011	$ 15,284	$ 2,727	17.8%	$ 15,284	$ 14,133	$ 1,151	8.1%
Occupancy	1,735	1,705	30	1.8%	1,705	1,391	314	22.6%
Furniture and equipment	1,182	898	284	31.6%	898	804	94	11.7%
Professional services	1,447	1,425	22	1.5%	1,425	1,169	256	21.9%
Data processing	1,678	1,572	106	6.7%	1,572	1,439	133	9.2%
Business development	1,176	1,072	104	9.7%	1,072	898	174	19.3%
Other	3,369	3,220	149	4.6%	3,220	2,779	441	15.9%
Total other operating expenses	$ 28,598	$ 25,176	$ 3,422	13.6%	$ 25,176	$ 22,613	$ 2,563	11.3%

Other operating expenses increased for the year ended December 31, 2006 compared to the years ended December 31, 2005 and 2004.

Salaries, wages and employee benefits increased for the year ended December 31, 2006 compared to the years ended December 31, 2005 and 2004. This increase is due to an annual merit increases for many employees, group medical insurance, increased FICA expense due to the exercise of stock option by officers of the Bank, and the cliff vesting of restricted stock of officers of the Bank, 401K contributions, and the increase in the number of employees to 212 full time equivalents at December 31, 2006 from 201 full time equivalents at December 31, 2005 and from 181 full time equivalents at December 31, 2004.

Occupancy expense increased for the year ended December 31, 2006 compared to the years ended December 31, 2005 and 2004. This increase is attributable to an increase in utilities, management fees, and cleaning and supplies at the Corporation's main office building, real estate taxes, and depreciation expense related to the opening of the upgraded Greenwood Bank Office to a new full-size freestanding building at 1689 West Smith Valley Road in September 2005 and the opening of a new banking center at 10590 North Michigan Road in January 2005.

Furniture and equipment expense increased for the year ended December 31, 2006 compared to the years ended December 31, 2005 and 2004. This increase is primarily due the upgraded Greenwood Bank Office, repair expense for older assets, and an increase in maintenance contracts.

Professional services expense increased for the year ended December 31, 2006 compared to the years ended December 31, 2005 and 2004. The increase is primarily due to additional expense incurred relating to advertising agency fees, accounting fees, design services, and courier services. The increase is partially offset by a decrease in costs incurred relating to Sarbanes Oxley Act of 2002.

Data processing expenses increased for the year ended December 31, 2006 compared to the years ended December 31, 2005 and 2004 primarily due to increased service bureau fees relating to increased transaction activity by the Bank, credit card processing, assistance with the implementation of a new fiduciary income tax system and automation of the wire system.

Business development expenses increased for the year ended December 31, 2006 compared to the years ended December 31, 2005 and 2004 due to increased advertising, public relations, and customer entertainment. The increase is partially offset by a decrease in direct mail campaign, customer promotions, and premium items.

Other expenses increased for the year ended December 31, 2006 compared to the years ended December 31, 2005 and 2004 due to postage expense, software maintenance, stationary and printing, other real estate expense, conferences and conventions and expenses relating to the enhancement of the credit card processing system. The increase is partially offset by a decrease in employment agency fees and the recovery of 2005 loan collection expense during 2006.

Tax (Benefit)/Expense

The Corporation applies a federal income tax rate of 34% and a state tax rate of 8.5% in the computation of tax expense. The provision for income taxes consisted of the following:

	2006	2005	2004
Current tax expense	$ 3,749,202	$ 4,300,157	$ 2,940,441
Deferred tax (benefit) / expense	(325,702)	(421,841)	194,557
	$ 3,423,500	$ 3,878,316	$ 3,134,998

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets are recognized for the estimated tax effects attributable to deductible temporary differences net of any valuation allowances for amounts which may not be realized by the Corporation.

The components of the Corporation's net deferred tax assets in the consolidated balance sheet as of December 31, 2006 and 2005 are as follows:

	2006	2005
Deferred tax assets:		
Allowance for loan losses	$3,372,038	$3,306,005
Other	1,551,002	1,785,184
Total deferred tax assets	4,923,040	5,091,189
Deferred tax liability:		
Mortgage servicing rights	(525,467)	(515,063)
Total deferred tax liabilities	(525,467)	(515,063)
Net deferred tax assets	$4,397,573	$4,576,126

Effects of Inflation

Inflation can have a significant effect on the operating results of all industries. This is especially true in industries with a high proportion of fixed assets and inventory. However, management believes that these factors are not as critical in the banking industry. Inflation does, however, have an impact on the growth of total assets and the need to maintain a proper level of equity capital.

Interest rates are significantly affected by inflation, but it is difficult to assess the impact since neither the timing nor the magnitude of the changes in the various inflation indices coincides with changes in interest rates. There is, of course, an impact on longer-term earning assets; however, this effect continues to diminish as investment maturities are shortened and interest-earning assets and interest-bearing liabilities shift from fixed rate, long-term to rate-sensitive, short-term.

Liquidity and Interest Rate Sensitivity

The Corporation must maintain an adequate liquidity position in order to respond to the short-term demand for funds caused by withdrawals from deposit accounts, extensions of credit and for the payment of operating expenses. Maintaining an adequate liquidity position is accomplished through the management of the liquid assets - those which can be converted into cash – and access to additional sources of funds. The Corporation must monitor its liquidity ratios as established in the Asset/Liability Committee ("ALCO") Policy. In addition, the Corporation has established a contingency funding plan to address liquidity needs in the event of depressed economic conditions. The liquidity position is continually monitored and reviewed by ALCO.

The Corporation has many sources of funds available, they include: overnight federal funds sold, investments available for sale, maturity of investments held for sale, deposits, Federal Home Loan Bank ("FHLB") advances, and issuance of debt. Funding sources did not change significantly during 2006. Deposits are the most significant funding source and loans are the most significant use of funds for the years ended December 31, 2006, 2005, and 2004. The Corporation maintains a $5,000,000 revolving credit agreement with Harris Trust and Savings Bank to provide additional liquidity support to the Bank, if needed. There were no borrowings under this agreement at December 31, 2006 or 2005.

Primary liquid assets of the Corporation are cash and due from banks, federal funds sold, investments held as available for sale, and maturing loans. Federal funds sold represent the Corporation's primary source of immediate liquidity and were maintained at a level adequate to meet immediate needs. Federal funds sold averaged approximately $46,721,000, $43,508,000, and $42,637,000 for the years ended December 31, 2006, 2005 and 2004 respectively. Reverse repurchase agreements may serve as a source of liquidity, but are primarily used as collateral for customer balances in overnight repurchase agreements. Maturities in the Corporation's loan and investment portfolios are monitored regularly to avoid matching short-term deposits with long-term loans and investments. Other assets and liabilities are also monitored to provide the proper balance between liquidity, safety, and profitability. This monitoring process must be continuous due to the constant flow of cash which is inherent in a financial institution.

The Corporation's management believes its liquidity sources are adequate to meet its operating needs and does not know of any trends, events or uncertainties that may result in a significant adverse effect on the Corporation's liquidity position.

The Corporation actively manages its interest rate sensitive assets and liabilities to reduce the impact of interest rate fluctuations. At December 31, 2006, the Corporation's rate sensitive liabilities exceeded rate sensitive assets due within one year by $148,083,778. At December 31, 2005, the Corporation's rate sensitive liabilities exceeded rate sensitive assets due within one year by $63,614,220.

The purpose of the Bank's Investment Committee is to manage and balance interest rate risk, to provide a readily available source of liquidity to cover deposit runoff and loan growth, and to provide a portfolio of safe, secure assets of high quality that generate a supplemental source of income in concert with the overall asset/liability policies and strategies of the Bank.

The Bank holds securities of the U.S. Government and its agencies along with asset-backed securities, collateralized mortgage obligations, municipals, and Federal Home Loan Bank and Federal Reserve Bank stock. In order to properly manage market risk, credit risk and interest rate risk, the Bank has guidelines it must follow when purchasing investments for the portfolio and adherence to these policy guidelines are reported monthly to the board of directors.

A portion of the Bank's investment securities consist of collateralized mortgage obligations. The Bank limits the level of these securities that can be held in the portfolio to a specified percentage of total average assets.

All mortgage-related securities must pass the FFIEC stress test. This stress test determines if price volatility under a 200 basis point interest rate shock for each security exceeds a benchmark 30 year mortgage-backed security. If the security fails the test, it is considered high risk and the Bank will not purchase it. All mortgage-related securities purchased and included in the investment portfolio will be subject to the FFIEC test as of December 31 each year to determine if they have become high risk holdings. If a mortgage-related security becomes high risk, it will be evaluated by the Bank’s Investment Committee to determine if the security should be liquidated. At December 31, 2006 and 2005, the Bank did not hold any high risk mortgage-related securities.

The Bank's investment portfolio also consists of bank-qualified municipal securities. Municipal securities purchased are limited to the first three (3) grades of the rating agencies. The grade is reviewed each December 31 to verify that the grade has not deteriorated below the first three (3) grades. The Bank may purchase non-rated general obligation municipals, but the credit strength of the municipality must be evaluated by the Bank's Credit Department. Generally, municipal securities from each issuer will be limited to $2 million, never to exceed 10% of the Bank's tier 1 capital and will not have a stated final maturity date of greater than fifteen (15) years.

The fully taxable equivalent (“FTE”) average yield on the Bank's investment portfolio is as follows as of December 31,

	2006	2005	2004
U.S. Treasuries	4.33%	2.40%	1.70%
U.S. Government agencies	3.50%	3.09%	2.65%
Collateralized mortgage obligations	3.44%	3.42%	3.41%
Municipals	5.82%	6.61%	7.76%
Other securities	5.03%	3.33%	1.71%

With the exception of securities of the U.S. Government and U.S. Government agencies and corporations, the Corporation had no other securities with a book or market value greater than 10% of shareholders' equity as of December 31, 2006, 2005 and 2004.

The following is a summary of available-for-sale securities and held-to-maturity securities:

	Available-for-Sale Securities			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
December 31, 2006				
U.S. Treasury securities	$ 1,495,336	$ -	$ 981	$ 1,494,355
U.S. Government agencies	60,000,000	-	720,799	59,279,201
Collateralized mortgage obligations	16,659	7	-	16,666
	$ 61,511,995	$ 7	$ 721,780	$ 60,790,222
December 31, 2005				
U.S. Treasury securities	$ 1,494,394	$ -	$ 2,009	$ 1,492,385
U.S. Government agencies	70,000,000	-	1,525,300	68,474,700
Collateralized mortgage obligations	35,052	-	12	35,040
	$ 71,529,446	$ -	$ 1,527,321	$ 70,002,125
December 31, 2004				
U.S. Treasury securities	$ 2,016,184	$ -	$ 7,704	$ 2,008,480
U.S. Government agencies	91,000,000	112,700	769,680	90,343,020
Collateralized mortgage obligations	62,486	58	-	62,544
	$ 93,078,670	$ 112,758	$ 777,384	$ 92,414,044

	Held-to-Maturity Securities			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
December 31, 2006				
Municipals	$ 46,247,490	$ 247,212	$ 211,345	$ 46,283,357
Collateralized mortgage obligations	39,724,743	-	952,366	38,772,377
Other securities	225,000	1,182	2,325	223,857
	$ 86,197,233	$ 248,394	$ 1,166,036	$ 85,279,591
December 31, 2005				
Municipals	$ 35,715,981	$ 315,262	$ 582,213	$ 35,449,030
Collateralized mortgage obligations	47,791,685	-	1,400,263	46,391,422
Other securities	225,000	2,202	1,598	225,604
	$ 83,732,666	$ 317,464	$ 1,984,074	$ 82,066,056
December 31, 2004				
Municipals	$ 5,444,198	$ 484,166	$ -	$ 5,928,364
Collateralized mortgage obligations	50,012,255	-	836,980	49,175,275
Other securities	250,000	4,584	221	254,363
	$ 55,706,453	$ 488,750	$ 837,201	$ 55,358,002

The Corporation held ninety investment securities as of December 31, 2006 of which the amortized cost was greater than market value. The majority of these investment securities were purchased during 2005 and 2006. Management does not believe any individual unrealized loss as of December 31, 2006 represents an other-than-temporary impairment. The unrealized losses relate primarily to securities issued by the U.S. Treasury, FHLMC and Municipalities. These unrealized losses are primarily attributable to changes in interest rates and individually were 2.96% or less of their respective amortized cost basis. The Corporation has both the intent and ability to hold these securities for a time necessary to recover the amortized cost.

As part of managing liquidity, the Corporation monitors its loan to deposit ratio on a daily basis. At December 31, 2006 the ratio was 85.1 percent and as of December 31, 2005 the ratio was 88.4 percent which is within the Corporation's acceptable range.

The following table shows the composition of the Bank's loan portfolio as of the dates indicated (in 000's):

	December 31,									
	2006		2005		2004		2003		2002	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
TYPES OF LOANS										
Commercial	$ 278,924	37.3%	$ 252,528	36.9%	$235,705	35.7%	$ 221,846	37.2%	$182,994	34.6%
Construction	57,083	7.7%	50,173	7.3%	37,119	5.7%	35,305	5.9%	21,107	4.0%
Commercial mortgage	141,956	19.1%	138,075	20.2%	127,773	19.5%	120,135	20.1%	113,399	21.4%
Residential mortgage	214,291	28.8%	195,766	28.6%	206,599	31.5%	183,095	30.7%	163,034	30.8%
Consumer	49,575	6.7%	45,188	6.6%	40,534	6.2%	25,183	4.2%	35,934	6.8%
Credit cards	2,709	0.4%	2,737	0.4%	2,480	0.4%	2,360	0.4%	2,056	0.4%
Other	-	0.0%	20	0.0%	6,243	1.0%	9,139	1.5%	10,387	2.0%
Total - Gross	$ 744,538	100.0%	$ 684,487	100.0%	$656,453	100.0%	$ 597,063	100.0%	$528,911	100.0%
Allowance	(8,513)		(8,346)		(7,796)		(8,030)		(7,227)	
Total - Net	$ 736,025		$ 676,141		$648,657		$ 589,033		$521,684	

The following table shows the composition of the commercial loan category by industry type as of the dates indicated (in $000's):

Type	December 31, 2006 Amount	%	2005 Amount	%	2004 Amount	%
Agriculture, Foresty & Fishing	$ 355	0.1%	$ 1,136	0.4%	$ 258	0.1%
Mining	5,123	1.8%	2,574	1.0%	2,615	1.1%
Utilities	-	0.0%	-	0.0%	-	0.0%
Construction	9,549	3.4%	9,714	3.8%	13,417	5.7%
Manufacturing	48,768	17.5%	38,178	15.1%	30,571	13.0%
Wholesale Trade	34,880	12.5%	32,287	12.8%	29,965	12.7%
Retail Trade	7,782	2.8%	6,215	2.5%	4,870	2.1%
Transportation	10,281	3.7%	8,473	3.4%	9,966	4.2%
Information	606	0.2%	945	0.4%	1,141	0.5%
Finance & Insurance	5,196	1.9%	3,997	1.6%	4,091	1.7%
Real Estate and Rental & Leasing	62,377	22.4%	55,906	22.1%	46,134	19.6%
Professional, Scientific & Technical Services	30,092	10.8%	31,604	12.5%	30,522	12.9%
Management of Companies & Enterprises	3,928	1.4%	1,576	0.6%	2,199	0.9%
Administrative and Support, Waste Management & Remediation Services	2,453	0.9%	1,476	0.6%	-	0.0%
Educational Services	5,449	2.0%	4,680	1.9%	4,158	1.8%
Health Care & Social Assistance	26,662	9.6%	21,028	8.3%	21,253	9.0%
Arts, Entertainment & Recreation	1,678	0.6%	1,759	0.7%	5,333	2.3%
Accommodation & Food Services	8,536	3.1%	8,788	3.5%	9,026	3.8%
Other Services	15,209	5.3%	22,192	8.8%	20,187	8.6%
	$ 278,924	100.0%	$ 252,528	100.0%	$ 235,705	100.0%

The following table shows the composition of the Bank's deposit portfolio as of the dates indicated (in 000's):

	December 31, 2006 Amount	% of Total	2005 Amount	% of Total	2004 Amount	% of Total
Types of deposits						
Demand	$ 181,954	26.47%	$ 171,858	26.98%	$ 153,674	26.64%
MMDA/Savings	505,314	73.53%	465,220	73.02%	423,255	73.36%
Total demand deposits	687,268	100.00%	637,078	100.00%	576,929	100.00%
CDs < $100,000	67,582	35.98%	59,258	43.18%	55,969	48.04%
CDs > $100,000	103,782	55.26%	64,021	46.65%	47,502	40.77%
Individual retirement accounts	16,452	8.76%	13,959	10.17%	13,031	11.19%
Total certificates of deposit	187,816	100.00%	137,238	100.00%	116,502	100.00%
Total deposits	$ 875,084		$ 774,316		$ 693,431	

The following table illustrates the projected maturities and the repricing mechanisms of the major asset/liabilities categories of the Corporation as of December 31, 2006, based on certain assumptions. Prepayment rate assumptions have been made for the residential loans secured by real estate portfolio. Maturity and repricing dates for investments have been projected by applying the assumptions set forth below to contractual maturity and repricing dates.

	0 - 180 days	181 - 365 days	1 - 2 years	2 - 3 years	3 -5 years	5 + years	Non-interest Earning	Total
Interest Earning Assets:								
Fed Funds/ overnight time	$ 78,278,855	-	-	-	-	-	-	$ 78,278,855
Reverse repurchase agreements	1,000,000	-	-	-	-	-	-	1,000,000
Investments	27,732,936	6,855,634	31,638,442	29,288,688	9,329,713	42,142,042	-	146,987,455
Federal Reserve and FHLB stock	2,188,400	-	-	-	-	961,500	-	3,149,900
Loans								
Commercial & Industrial								
Fixed	27,490,671	5,088,788	9,941,613	10,007,688	31,296,954	11,282,510	-	95,108,224
Variable	174,554,199	550,111	961,965	2,169,917	694,614	-	4,885,222	183,816,028
Construction	52,068,055	853,573	2,024,263	566,921	1,290,082	279,871	-	57,082,765
Commercial Loans Secured by Real Estate								
Fixed	20,825,517	11,971,716	7,600,084	9,970,575	28,465,925	15,456,586	-	94,290,403
Variable	34,083,370	1,364,011	738,995	539,937	9,719,331	-	1,219,711	47,665,355
Residential Loans Secured by Real Estate								
Fixed	3,701,846	3,761,213	6,965,828	6,259,168	10,594,478	24,609,138	112,054	56,003,725
Variable	105,723,540	5,459,888	11,837,068	7,840,162	16,233,981	10,266,009	927,047	158,287,695
Other								
Fixed	1,094,507	1,033,412	1,896,824	1,602,852	2,817,231	-	1,240,836	9,685,662
Variable	42,598,077	-	-	-	-	-	-	42,598,077
Total Interest Earning Assets	$ 571,339,973	$ 36,938,346	$ 73,605,082	$ 68,245,908	$ 110,442,309	$ 104,997,656	$ 8,384,870	$ 973,954,144
Non-Interest Earning Assets							60,477,691	60,477,691
Total Assets	$ 571,339,973	$ 36,938,346	$ 73,605,082	$ 68,245,908	$ 110,442,309	$ 104,997,656	$ 68,862,561	$ 1,034,431,835
Interest Bearing Liabilities:								
Demand Deposits	$ 10,813,151	$ 10,053,055	$ 18,375,628	$ 16,287,879	$ 27,234,359	$ 99,137,300	$ 52,192	$ 181,953,564
Interest Bearing Demand	105,118,470	-	-	-	-	-	-	105,118,470
Savings Deposits	11,940,581	-	-	-	-	-	-	11,940,581
Money Market Accounts	388,255,230							388,255,230
Certificate of Deposits	34,251,169	26,327,114	10,527,838	4,332,761	2,051,243	3,274,970	-	80,765,095
Jumbo CDs	57,140,850	37,329,149	6,732,562	2,118,141	1,846,382	1,883,609	-	107,050,693
Repurchase Agreements	59,133,328							59,133,328
FHLB Advances	-	11,000,000	3,000,000	-	-	-	-	14,000,000
Subordinated Debt	5,000,000	-	-	-	-	-	-	5,000,000
Company obligated mandatorily redeemable preferred capital securities of subsidiary trust holding solely the junior subordinated debentures of the parent company	-	-	-	-	-	13,918,000	-	13,918,000
Total Interest Bearing Liabilities	$ 671,652,779	$ 84,709,318	$ 38,636,028	$ 22,738,781	$ 31,131,984	$ 118,376,515	$ (110,444)	$ 967,134,961
Non-Interest Bearing Liabilities							7,512,043	7,512,043
Equity							59,784,831	59,784,831
Total Liabilities & Shareholders' Equity	$ 671,652,779	$ 84,709,318	$ 38,636,028	$ 22,738,781	$ 31,131,984	$ 118,376,515	$ 67,186,430	$ 1,034,431,835
Interest Sensitivy Gap per Period	$ (100,312,806)	$ (47,770,972)	$ 34,969,054	$ 45,507,127	$ 79,310,325	$ (13,378,859)	$ 1,676,131	
Cumulative Interest Sensitivity Gap	$ (100,312,806)	$ (148,083,778)	$ (113,114,724)	$ (67,607,597)	$ 11,702,728	$ (1,676,131)	$ 0	
Interest Sensitivity Gap as a Percentage of Earning Assets	-10.30%	-4.90%	3.59%	4.67%	8.14%	-1.37%	0.17%	
Cumulative Sensitivity Gap as a Percentage of Earning Assets	-10.30%	-15.20%	-11.61%	-6.94%	1.20%	-0.17%	0.00%	

Of the $57,140,850 Jumbo CDs maturing in 0 - 180 days, $38,581,841 will mature in three months or less.

Contractual Obligations

The following table presents, as of December 31, 2006, significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in the referenced notes to the Consolidated Financial Statements under Item 8 of this report.

		Payments Due In				
(In Thousands)	Note Reference	One Year or Less	One to Three Years	Three to Five Years	Over Five Years	Total
Deposits without a stated maturity[a]	10	$ 687,268	$ -	$ -	$ -	$ 687,268
Consumer certificates of deposits [a]	10	155,048	23,711	3,898	5,159	187,816
FHLB advances[a]	11	11,000	3,000	-	-	14,000
Security repurchase agreements[a]	11	59,133	-	-	-	59,133
Long-term debt [a]	4, 11	-	-	-	18,918	18,918
Operating leases	8	324	614	325	996	2,259

(a) Excludes Interest

The Corporation's operating lease obligations represent rental payments for banking center offices.

Critical Accounting Policies

The Corporation's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and follow general practices within the industries in which it operates. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets are based either on quoted market prices or are provided by other third-party sources, when available. When third-party information is not available, valuation adjustments are estimated in good faith by management primarily through the use of internal cash flow modeling techniques.

Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the allowance for loan losses and the valuation of the mortgage servicing asset to be the accounting areas that require the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available.

Mortgage Servicing Assets

Mortgage servicing rights are recognized as separate assets when rights are acquired through sale of mortgage loans. Capitalized servicing rights are reported in other assets and are amortized and netted against mortgage banking income in proportion to, and over the period of, the estimated future servicing income of the underlying financial assets. Mortgage servicing rights are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as loan type, interest rates, maturities, and other terms. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Estimates of fair value include assumptions about loan prepayment speeds, servicing costs and revenues, interest rates, and other factors which may change over time. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the cost of the rights for each stratum.

Derivative Instruments and Hedging Activities

During the second quarter of 2004, the Corporation entered into a 3-year interest rate swap to mitigate the risk of adverse interest rate movements on the value of future cash flows related to its investment in overnight Federal Funds sold. Pursuant to FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities", cash flow hedges are accounted for by recording the fair value of the derivative instrument on the balance sheet as either an asset or liability, with a corresponding offset recorded in other comprehensive income within shareholders' equity, net of tax, to the extent the hedge is effective. See Note 6 Derivative Instruments and Hedging Activities in the Notes to the Consolidated Financial Statements under Item 8 of this report for further information.

Under the cash flow hedge accounting method, derivative gains and losses not effective in hedging the change in expected cash flows of the hedged item are recognized immediately in the consolidated income statements. At the hedge's inception and quarterly thereafter, a formal assessment is performed to determine whether changes in cash flows of the derivative instrument have been highly effective in offsetting changes in the cash flows of the hedged item and whether they are expected to be highly effective in the future. If it is determined a derivative instrument has not been or will not continue to be highly effective as a hedge, hedge accounting is discontinued.

Stock-Based Compensation

The Corporation has granted stock options to certain employees and directors. The stock options are for a fixed number of shares with an exercise price which approximates the fair value of shares at the date of grant, and upon exercised, the Corporation issues the shares out of common stock. Prior to January 1, 2006, the expense for director and employee compensation under stock option plans was based on Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, ("APB 25"), with expense reported only if options were granted with an exercise price below the market price on the grant date. Because the exercise price of the Corporation's director and employee stock options equaled the market price of the underlying stock on the date of grant, no compensation expense was recognized.

On January 1, 2006, the Corporation adopted FASB Statement No. 123(R), Share Based Payment, ("FASB 123(R)") using the "modified prospective" transition method. The "modified prospective" method recognizes compensation costs beginning on January 1, 2006 (a) based on the requirements of FASB 123(R) for all share-based payments granted after that date and (b) based on the requirements of FASB Statement No. 123 for all awards granted to employees prior to that date that remain unvested prior to 2006.

The following table illustrates the effect on net income and earnings per share of the Corporation had it applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, as amended by FASB Statement No. 148, for stock-based compensation for the period ended December 31, 2005 and 2004.

	2005	2004
Net income, as reported	$ 6,262,526	$ 5,681,049
Add: stock-based compensation expense, net of related taxes	155,340	181,167
Less: total stock-based compensation expense determined under fair-value-based method, net of taxes	(286,764)	(358,475)
Pro forma net income	$ 6,131,102	$ 5,503,741
Earnings per share:		
Basic, as reported	$ 2.72	$ 2.47
Basic, pro forma	$ 2.67	$ 2.39
Diluted, as reported	$ 2.62	$ 2.37
Diluted, pro forma	$ 2.57	$ 2.30

FASB 123(R) requires that cash flows resulting from the tax benefits of tax deductions in excess of recognized compensation expense be reported as financing cash flows, rather than as operating cash flows as required by APB 25. While total cash flow remains unchanged, this requirement reduces operating cash flows and increases net financing cash flows by the same amount in periods after adoption. The amount of operating cash flows recognized in prior periods for such excess tax deductions were $172,650 and $817,610 in 2005 and 2004. In 2006, the amount of financing cash flows recognized for such excess tax deductions was $481,824.

In addition, the effects of adopting FASB 123(R) relating to earnings per share, are presented in the table below.

Effect of Adoption of FASB 123(R)

	Twelve months ended December 31, 2006	
	As Reported	Effect of Adopting FASB 123(R)
Income before tax	$ 10,485,725	$ (551,157)
Net Income	7,062,225	(332,844)
Basic earnings per share	$ 3.07	$ (0.14)
Diluted earnings per share	$ 2.94	$ (0.13)

Allowance for Loan Losses

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses allocated to loans that are identified as impaired is based on cash flows using the loan's initial effective interest rate or the fair value of the collateral for collateral dependent loans.

The allowance for loan losses is maintained at a level believed adequate by management to absorb inherent losses in the loan portfolio. The determination of the allowance is based on factors which, in management's judgment, deserve recognition under existing economic conditions in estimating probable loan losses. This evaluation is inherently subjective as it requires material estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. The allowance is increased by provisions for loan losses charged against income and reduced by net charge-offs.

The allowance for loan losses is allocated to each loan category based on specific loss allocation, management's estimate of expected losses based on the Bank's historical loss experience, and a qualitative analysis. Although the loan loss reserve is allocated by loan category, the entire allowance is available to cover any loan loss that may occur.

The following table shows the dollar amount of the allowance for loan losses using management's estimate by loan category (in $000's):

	December 31, 2006	2005	2004	2003	2002
Commercial	$ 3,870	$ 4,204	$ 5,094	$ 6,519	$ 5,173
Construction	448	404	155	77	82
Commercial mortgage	1,529	1,319	618	261	437
Residential mortgage	2,165	1,758	1,108	639	906
Consumer	410	586	745	318	391
Credit card	73	74	11	63	61
Other	18	1	65	153	177
	$ 8,513	$ 8,346	$ 7,796	$ 8,030	$ 7,227

Management considers the present allowance to be appropriate and adequate to cover losses inherent in the loan portfolio based on the current economic environment. However, future economic changes cannot be predicted. Deterioration in economic conditions could result in an increase in the risk characteristics of the loan portfolio and an increase in the provision for loan losses.

Loans are placed on non-accrual status when significant doubt exists as to the collectibility of principal and interest. Interest continues to legally accrue on these non-accrual loans, but no income is recognized for financial statement purposes. Both principal and interest payments received on non-accrual loans are applied to the outstanding principal balance, until the remaining balance is considered collectible, at which time interest income may be recognized when received.

The following table presents a summary of non-performing assets as of December 31, (in 000's):

	December 31,									
	2006		2005		2004		2003		2002	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Non-Accrual Loans										
Commercial	$ 4,754	66.5%	$ 1,055	28.9%	$ 1,800	57.7%	$ 4,063	83.4%	$ 1,605	49.7%
Construction	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Commercial mortgage	1,220	17.1%	629	17.2%	-	0.0%	-	0.0%	-	0.0%
Residential mortgage	1,039	14.5%	1,777	48.8%	815	26.1%	808	16.6%	1,624	50.3%
Consumer	139	1.9%	187	5.1%	-	0.0%	-	0.0%	-	0.0%
Credit card	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Other	-	0.0%	-	0.0%	504	16.2%	-	0.0%	-	0.0%
Total	$ 7,152	100.0%	$ 3,648	100.0%	$ 3,119	100.0%	$ 4,871	100.0%	$ 3,229	100.0%
Loans 90 days past due - still accruing	$ 33		$ -		$ 73		$ 517		$ 9	
Restructured due to troubled conditions of the borrower	$ -		$ -		$ -		$ -		$ 2,902	

The following table presents a summary of non-performing loans as of December 31:

	2006	2005	2004	2003	2002
Loan Type					
Commercial					
# of loans	10	15	14	28	11
Interest income recognized	$ 206,131	$ 57,110	$ 73,795	$ 112,102	$ 111,591
Additional interest income if loan had been accruing	$ 147,995	$ 165,475	$ 101,190	$ 168,426	$ 54,952
Consumer					
# of loans	2	3	3	-	-
Interest income recognized	$ -	$ 382	$ 20,155	$ -	$ -
Additional interest income if loan had been accruing	$ 21,276	$ 22,461	$ 36,531	$ -	$ -
Residential mortgage loans					
# of loans	23	20	15	13	12
Interest income recognized	$ 12,059	$ 52,430	$ 8,737	$ 42,539	$ 18,650
Additional interest income if loan had been accruing	$ 80,425	$ 73,499	$ 68,942	$ 22,527	$ 34,598
Credit cards					
# of loans	-	-	-	-	-
Interest income recognized	$ -	$ -	$ -	$ -	$ -
Additional interest income if loan had been accruing	$ -	$ -	$ -	$ -	$ -
Restructured loans	$ -	$ -	$ -	$ -	$ 2,901,600

Capital Resources

The Corporation's only source of capital since commencing operations has been from issuance of common stock, results of operations, issuance of long term debt to a non-affiliated third party, and the issuance of junior subordinated debentures.

The Corporation maintains a Revolving Credit Agreement with Harris Trust and Savings Bank in the amount of $5,000,000, that will mature September 30, 2007. The outstanding balance at December 31, 2006 was $0.

The Bank entered into an agreement in the amount of $5,000,000 pursuant to a Subordinated Term Loan Agreement with Harris Trust and Savings Bank dated June 6, 2003. Under the agreement the Bank can make up to two advances against the term loan prior to June 6, 2004. The first advance was made in the amount of $2,000,000 on June 6, 2003. The second advance was made in the amount of $3,000,000 on May 3, 2004. The final maturity date of the loan is June 6, 2012. The outstanding principal balance is due at maturity; however, prepayment of the principal balance is permitted prior to maturity with prior consent from the Federal Reserve.

There are many different interest rate options available. Each floating rate option is available for a fixed term of 1-3 months. The Bank is currently paying adjusted 3-month LIBOR plus 2.0% which equates to 7.37% at December 31, 2006. Interest payments are due at the expiration of the fixed term option.

In September 2000, the Trust, which is wholly owned by the Corporation, issued $13,500,000 of company obligated mandatorily redeemable capital securities. The proceeds from the issuance of the capital securities and the proceeds from the issuance of the common securities of $418,000 were used by the Trust to purchase from the Corporation $13,918,000 Fixed Rate Junior Subordinated Debentures. The capital securities mature September 7, 2030, or upon earlier redemption as provided by the Indenture. The Corporation has the right to redeem the capital securities, in whole or in part, but in all cases in a principal amount with integral multiples of $1,000, on any March 7 or September 7 on or after September 7, 2010 at a premium, declining ratably to par on September 7, 2020. The capital securities and the debentures have a fixed interest rate of 10.60%, and are guaranteed by the Bank. The net proceeds received by the Corporation from the sale of capital securities were used for general corporate purposes.

The Bank has incurred indebtedness pursuant to FHLB advances as follows:

2006			2005			2004		
Amount	Rate	Maturity	Amount	Rate	Maturity	Amount	Rate	Maturity
$ 8,000,000	4.19%	07/24/2007	$ 5,000,000	5.43%	03/16/2006	$ 5,000,000	5.14%	08/01/2005
3,000,000	5.57%	08/13/2007	5,000,000	5.32%	05/08/2006	3,000,000	5.39%	10/03/2005
3,000,000	5.55%	10/02/2008	8,000,000	4.19%	07/24/2007	5,000,000	5.43%	03/16/2006
			3,000,000	5.57%	08/13/2007	5,000,000	5.32%	05/08/2006
			3,000,000	5.55%	10/02/2008	8,000,000	4.19%	07/24/2007
						3,000,000	5.57%	08/13/2007
						3,000,000	5.55%	10/02/2008
$ 14,000,000			$ 24,000,000			$ 32,000,000		

During 2006, the maximum amount outstanding at any month-end during the year for FHLB Advances was $29,000,000. The Bank may add indebtedness of this nature in the future if determined to be in the best interest of the Bank.

Security repurchase agreements are short-term borrowings that generally mature within one to three days from the transaction date. At December 31, 2006 and 2005 the weighted average interest rate on these borrowings was 3.96% and 2.51%, respectively. During 2006, the maximum amount outstanding at any month-end during the year was $75,951,957. Due to the fact that security repurchase agreements are a sweep product used by our corporate clients, there is not a large volatility in the average balances. There is a core deposit base. Balances in excess of this core deposit base are generally invested in overnight Federal Funds sold. Thus, our liquidity is not materially affected.

Capital for the Bank is above well-capitalized regulatory requirements at December 31, 2006. Pertinent capital ratios for the Bank as of December 31, 2006 are as follows:

	Actual	Well Capitalized	Adequately Capitalized
Tier 1 risk-based capital ratio	9.0%	6.0%	4.0%
Total risk-based capital ratio	10.7%	10.0%	8.0%
Leverage ratio	7.1%	5.0%	4.0%

Dividends from the Bank to the Corporation may not exceed the net undivided profits of the Bank (included in consolidated retained earnings) for the current calendar year and the two previous calendar years without prior approval of the OCC. In addition, Federal banking laws limit the amount of loans the Bank may make to the Corporation, subject to certain collateral requirements. No loans were made during 2006 or 2005 by the Bank to the Corporation. A dividend of $1,300,000 was declared and made during 2006 and 2005 by the Bank to the Corporation.

In January 2003, the Board of Directors of the Corporation authorized a common stock repurchase program entitled "Program One" which covers employees and directors and was set to expire on December 31, 2005 unless terminated earlier by the Board. However, during the fourth quarter of 2005, the Board of Directors of the Corporation authorized the effective date to be extended until December 31, 2008 unless terminated earlier by the Board of Directors and authorized an additional $1,900,000 to be allocated to Program One. Under Program One, the Corporation may spend up to $7,400,000 in individually negotiated transactions to repurchase its shares from employees and directors who wish to sell. The repurchase program may be suspended or discontinued at any time if management determines that additional purchases are not warranted or if the cost of the repurchase program reaches $7,400,000.

The amount and timing of shares repurchased under the repurchase program, as well as the specific price, will be determined by management after considering market conditions, company performance and other factors.

At December 31, 2006, the remaining authority under Program One was approximately $1,536,186.

In January 2003, the Board of the Corporation authorized a separate common stock repurchase program entitled "Program Two" which covers all other shareholders and was set to expire at December 31, 2005, however, during the fourth quarter of 2005, the Board of the Corporation authorized the effective date to be extended until December 31, 2008 unless terminated earlier by the Board and authorized an additional $2,600,000 to be allocated to Program Two. Under Program Two, the Corporation may spend up to $10,200,000 in individually negotiated transactions to repurchase its shares from shareholders who wish to sell. The repurchase program may be suspended or discontinued at any time if management determines that additional purchases are not warranted or if the cost of the repurchase program reaches $10,200,000.

The amount and timing of shares repurchased under the repurchase program, as well as the specific price, will be determined by management after considering market conditions, company performance and other factors.

At December 31, 2006, the remaining authority under Program Two was approximately $3,629,903.

Recent Accounting Pronouncements and Developments

Note 2 to the Consolidated Financial Statements under Item 8 discusses new accounting policies adopted by the Corporation during 2006 and the expected impact of accounting policies. Note 2 also discusses recently issued or proposed new accounting policies but not yet required to be adopted and the impact of the accounting policies if known. To the extent the adoption of new accounting standards materially affects financial conditions; results of operations, or liquidity, the impacts if known are discussed in the applicable section(s) of notes to consolidated financial statements.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This discussion contains certain forward-looking statements that are subject to risks and uncertainties and includes information about possible or assumed future results of operations. Many possible events or factors could affect our future financial results and performance. This could cause results or performance to differ materially from those expressed in our forward-looking statements. Words such as "expects," "anticipates," "believes," "estimates," variations of such words and other similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in, or implied by, such forward-looking statements. Readers should not rely solely on the forward-looking statements and should consider all uncertainties and risks discussed throughout this discussion. These statements are representative only on the date hereof.

The possible events or factors include, but are not limited to, the following matters. Our loan growth is dependent on economic conditions, as well as various discretionary factors, such as decisions to sell or purchase certain loans or loan portfolios; participations of loans; retention of residential mortgage loans; the management of a borrower; industry, product and geographic concentrations and the mix of the loan portfolio. The rate of charge-offs and provision expense can be affected by local, regional and international economic and market conditions, concentrations of borrowers, industries, products and geographic locations, the mix of the loan portfolio and management's judgments regarding the collectibility of loans. Liquidity requirements may change as a result of fluctuations in assets and liabilities and off-balance sheet exposures, which will impact our capital and debt financing needs and the mix of funding sources. Decisions to purchase, hold or sell securities are also dependent on liquidity requirements and market volatility, as well as on- and off-balance sheet positions. Factors that may impact interest rate risk include local, regional and international economic conditions, levels, mix, maturities, yields or rates of assets and liabilities, and the wholesale and retail funding sources of the Bank. We are also exposed to the potential of losses arising from adverse changes in market rates and prices which can adversely impact the value of financial products, including securities, loans, deposits, debt and derivative financial instruments, such as futures, forwards, swaps, options and other financial instruments with similar characteristics.

In addition, the banking industry in general is subject to various monetary and fiscal policies and regulations, which include those determined by the Federal Reserve Board, the OCC, and the Federal Deposit Insurance Corporation ("FDIC"), whose policies and regulations could affect our results. Other factors that may cause actual results to differ from the forward-looking statements include the following: competition with other local, regional and international banks, thrifts, credit unions and other non-bank financial institutions, such as investment banking firms, investment advisory firms, brokerage firms, investment companies and insurance companies, as well as other entities which offer financial services, located both within and outside the United States and through alternative delivery channels such as the World Wide Web; interest rate, market and monetary fluctuations; inflation; market volatility; general economic conditions and economic conditions in the geographic regions and industries in which we operate; introduction and acceptance of new banking-related products, services and enhancements; fee pricing strategies, mergers and acquisitions and our ability to manage these and other risks.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of loss due to adverse changes in market prices and rates. The Corporation's market risk arises primarily from interest rate risk inherent in its lending and deposit taking activities. Management actively monitors and manages its interest rate exposure and makes monthly reports to the Asset Liability Committee (the "ALCO"). The ALCO is responsible for reviewing the interest rate sensitivity position and establishing policies to monitor and limit exposure to interest rate risk. The guidelines established by ALCO are reviewed by the ALCO/Investment Committee of the Corporation's Board of Directors.

The Corporation's profitability is affected by fluctuations in interest rates. A sudden and substantial increase in interest rates may adversely impact the Corporation's earnings to the extent that the interest rates earned by assets and paid on liabilities do not change at the same speed, to the same extent, or on the same basis. The Corporation monitors the impact of changes in interest rates on its net interest income. The Corporation attempts to maintain a relatively neutral gap between earning assets and liabilities at various time intervals to minimize the effects of interest rate risk.

One of the primary goals of asset/liability management is to maximize net interest income and the net value of future cash flows within authorized risk limits. Net interest income is affected by changes in the absolute level of interest rates. Net interest income is also subject to changes in the shape of the yield curve. In general, a flattening of the yield curve would result in a decline in earnings due to the compression of earning asset yields and funding rates, while a steepening would result in increased earnings as investment margins widen. Earnings are also affected by changes in spread relationships between certain rate indices, such as prime rate.

Interest rate risk is monitored through earnings simulation modeling. The earnings simulation model projects changes in net interest income caused by the effect of changes in interest rates. The model requires management to make assumptions about how the balance sheet is likely to behave through time in different interest rate environments. Loan and deposit balances remain static and maturities reprice at the current market rate. The investment portfolio maturities and prepayments are assumed to be reinvested in similar instruments. Mortgage loan prepayment assumptions are developed from industry median estimates of prepayment speeds. Non-maturity deposit pricing is modeled on historical patterns. The Corporation performs a 200 basis point upward and downward interest rate shock to determine whether there would be an adverse impact on its annual net interest income and that it is within the established policy limits. The earnings simulation model as of December 31, 2006 projects an approximate decrease of 2.9% in net interest income in a 200 basis point downward interest rate shock and an approximate increase of .50% in net interest income in a 200 basis point upward interest rate shock. As of December 31, 2005, the earnings simulation model projected an approximate decrease of 10.4% in net interest income in a 200 basis point downward interest rate shock and an approximate increase of 1.7% in net interest income in a 200 basis point upward interest rate shock. The upward and downward change is well within the policy limits established by the ALCO policy for the period ending December 31, 2006 and 2005, respectively.

During 2006, the interest rate position of the Corporation was liability sensitive, meaning net income should decrease as rates rise and increase as rates fall. Due to the mix and timing of the repricing of the Corporation's assets and liabilities, interest income is not materially impacted whether rates increase or decrease in a 200 basis point interest rate shock. See further discussion on interest rate sensitivity on page 32.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of
The National Bank of Indianapolis Corporation

We have audited the accompanying consolidated balance sheets of The National Bank of Indianapolis Corporation and subsidiary (the Corporation) as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Corporation's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The National Bank of Indianapolis Corporation and subsidiary at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the financial statements, in 2006 the Corporation changed its method of accounting for stock options in accordance with Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*.

Indianapolis, Indiana
March 8, 2007

/s/ Ernst & Young LLP

The National Bank of Indianapolis Corporation

Consolidated Balance Sheets

	December 31 2006	December 31 2005
Assets		
Cash and due from banks	**$ 71,227,890**	$ 32,223,665
Reverse repurchase agreements	**1,000,000**	5,000,000
Federal funds sold	**39,648,321**	33,214,446
Available-for-sale securities	**60,790,222**	70,002,125
Held-to-maturity securities (Fair value of $85,279,591 and $82,066,056 at December 31, 2006 and 2005)	**86,197,233**	83,732,666
Total investment securities	**146,987,455**	153,734,791
Loans	**744,537,934**	684,487,802
Less allowance for loan losses	**(8,513,098)**	(8,346,390)
Net loans	**736,024,836**	676,141,412
Premises and equipment	**12,066,888**	11,872,396
Accrued interest receivable	**5,477,689**	4,602,045
Federal Reserve and FHLB stock	**3,149,900**	3,735,800
Other assets	**18,848,856**	7,937,299
Total assets	**$ 1,034,431,835**	$ 928,461,854
Liabilities and shareholders' equity		
Deposits:		
Noninterest-bearing demand deposits	**$ 181,953,564**	$ 171,857,446
Money market and savings deposits	**505,314,281**	465,220,257
Time deposits over $100,000	**107,050,693**	66,209,839
Other time deposits	**80,765,095**	71,028,173
Total deposits	**875,083,633**	774,315,715
Security repurchase agreements	**59,133,328**	53,556,402
FHLB advances	**14,000,000**	24,000,000
Subordinated debt	**5,000,000**	5,000,000
Junior subordinated debentures owed to unconsolidated subsidiary trust	**13,918,000**	13,918,000
Other liabilities	**7,512,043**	6,089,215
Total liabilities	**974,647,004**	876,879,332
Shareholders' equity:		
Common stock, no par value:		
Authorized shares; 2006 and 2005 – 3,000,000 shares; issued 2,677,870 in 2006 and 2,657,802 in 2005; outstanding 2,310,486 in 2006 and 2,333,406 in 2005	**17,801,380**	19,549,673
Unearned compensation	**–**	(357,507)
Additional paid-in capital	**5,826,532**	4,009,263
Retained earnings	**36,689,902**	29,627,677
Accumulated other comprehensive loss	**(532,983)**	(1,246,584)
Total shareholders' equity	**59,784,831**	51,582,522
Total liabilities and shareholders' equity	**$ 1,034,431,835**	$ 928,461,854

See accompanying notes.

The National Bank of Indianapolis Corporation

Consolidated Statements of Income

	Year Ended December 31		
	2006	**2005**	**2004**
Interest income:			
Interest and fees on loans	**$ 52,723,884**	$ 43,255,856	$ 33,305,992
Interest on investment securities	**6,690,081**	6,154,277	4,402,788
Interest on federal funds sold	**1,848,871**	1,291,306	725,134
Interest on reverse repurchase agreements	**112,375**	145,668	89,643
Total interest income	**61,375,211**	50,847,107	38,523,557
Interest expense:			
Interest on deposits	**24,542,555**	16,109,423	8,974,585
Interest on security repurchase agreements	**2,128,130**	1,527,886	570,295
Interest on FHLB advances and overnight borrowings	**1,027,733**	1,497,247	1,775,010
Interest on long-term debt	**1,866,100**	1,771,259	1,642,416
Total interest expense	**29,564,518**	20,905,815	12,962,306
Net interest income	**31,810,693**	29,941,292	25,561,251
Provision for loan losses	**1,086,000**	2,085,000	1,320,000
Net interest income after provision for loan losses	**30,724,693**	27,856,292	24,241,251
Other operating income:			
Wealth management fees	**3,715,964**	3,096,847	2,464,266
Service charges and fees on deposit accounts	**1,712,924**	1,833,825	2,130,994
Rental income	**451,473**	449,715	485,241
Mortgage banking income	**331,866**	313,588	563,901
Interchange income	**792,839**	670,725	594,093
Losses on sale of securities, net	**–**	–	(83,739)
Other income	**1,354,460**	1,096,173	1,033,031
Total other operating income	**8,359,526**	7,460,873	7,187,787
Other operating expenses:			
Salaries, wages, and employee benefits	**18,010,560**	15,283,832	14,132,773
Occupancy	**1,735,164**	1,704,720	1,390,658
Furniture and equipment	**1,181,583**	898,355	804,492
Professional services	**1,447,479**	1,424,921	1,169,109
Data processing	**1,678,083**	1,571,855	1,439,248
Business development	**1,176,403**	1,071,823	898,072
Other	**3,369,222**	3,220,817	2,778,639
Total other operating expenses	**28,598,494**	25,176,323	22,612,991
Income before tax	**10,485,725**	10,140,842	8,816,047
Federal and state income tax	**3,423,500**	3,878,316	3,134,998
Net income	**$ 7,062,225**	$ 6,262,526	$ 5,681,049
Basic earnings per share	**$3.07**	$2.72	$2.47
Diluted earnings per share	**$2.94**	$2.62	$2.37

See accompanying notes.

The National Bank of Indianapolis Corporation

Consolidated Statements of Shareholders' Equity

	Common Stock	Unearned Compensation	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2003	$ 22,858,900	$ (894,679)	$ 3,019,003	$17,684,102	$ 11,078	$42,678,404
Comprehensive income:						
Net income	–	–	–	5,681,049	–	5,681,049
Other comprehensive income:						
Net unrealized loss on investments, net of tax of $270,524	–	–	–	–	(412,445)	(412,445)
Net unrealized loss on swap, net of tax of $149,648	–	–	–	–	(228,156)	(228,156)
Total comprehensive income						5,040,448
Income tax benefit from exercise of options	–	–	817,610	–	–	817,610
Issuance of 111,366 shares of common stock under stock-based compensation plans	1,516,423	(29,859)	–	–	–	1,486,564
Repurchase of 114,421 shares of common stock	(3,779,334)	–	–	–	–	(3,779,334)
Compensation earned	–	299,995	–	–	–	299,995
Balance at December 31, 2004	20,595,989	(624,543)	3,836,613	23,365,151	(629,523)	46,543,687
Comprehensive income:						
Net income	–	–	–	6,262,526	–	6,262,526
Other comprehensive income:						
Net unrealized loss on investments, net of tax of $341,714	–	–	–	–	(520,982)	(520,982)
Net unrealized loss on swap, net of tax of $63,019	–	–	–	–	(96,079)	(96,079)
Total comprehensive income						5,645,465
Income tax benefit from exercise of options	–	–	172,650	–	–	172,650
Issuance of 29,305 shares of common stock under stock-based compensation plans	646,906	9,809	–	–	–	656,715
Repurchase of 45,073 shares of common stock	(1,693,222)	–	–	–	–	(1,693,222)
Compensation earned	–	257,227	–	–	–	257,227
Balance at December 31, 2005	19,549,673	(357,507)	4,009,263	29,627,677	(1,246,584)	51,582,522
Comprehensive income:						
Net income	–	–	–	**7,062,225**	–	**7,062,225**
Other comprehensive income:						
Net unrealized gain on investments, net of tax of $319,077	–	–	–	–	**486,470**	**486,470**
Net unrealized gain on swap, net of tax of $148,976	–	–	–	–	**227,131**	**227,131**
Total comprehensive income						**7,775,826**
Income tax benefit from exercise of options	–	–	**481,824**	–	–	**481,824**
Issuance of 61,768 shares of common stock under stock-based compensation plans	**1,360,600**	**–**	**(250,750)**	–	–	**1,109,850**
Repurchase of 42,989 shares of common stock	**(1,936,368)**	–	**–**	–	–	**(1,936,368)**
Compensation earned	–	–	**771,177**	–	–	**771,177**
Adoption of FASB 123(R) reversal of (41,700) shares of unvested restricted common stock	**(1,172,525)**	**357,507**	**815,018**	–	–	**–**
Balance at December 31, 2006	**$ 17,801,380**	**$ –**	**$ 5,826,532**	**$36,689,902**	**$ (532,983)**	**$59,784,831**

See accompanying notes.

The National Bank of Indianapolis Corporation

Consolidated Statements of Cash Flows

	Year Ended December 31		
	2006	**2005**	**2004**
Operating activities			
Net income	**$ 7,062,225**	$ 6,262,526	$ 5,681,049
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	**1,086,000**	2,085,000	1,320,000
Proceeds from sale of loans held for sale	**16,233,576**	18,372,384	32,995,345
Origination of loans held for sale	**(13,734,219)**	(10,300,026)	(19,180,719)
Depreciation and amortization	**1,645,031**	1,413,527	1,281,526
Mortgage servicing rights impairment recoveries	**(123,090)**	(167,918)	(256,140)
Loss on sale of investment securities available-for-sale	**–**	–	83,739
Gain on sale of loans	**(156,583)**	(82,493)	(157,145)
Gain on disposal of premises and equipment	**–**	(23,100)	(2,150)
Income tax benefit from exercise of options (APB 25)	**–**	172,650	817,610
Stock compensation	**99,786**	99,793	99,990
Net accretion/amortization of discounts and premiums on investments	**271,763**	314,501	294,755
Unearned compensation amortization	**–**	257,227	299,995
Compensation expense related to restricted stock and options	**771,177**	–	–
(Increase) decrease in:			
Accrued interest receivable	**(875,644)**	(601,307)	(497,337)
Other assets	**(11,146,741)**	(596,426)	(1,355,428)
Increase in other liabilities	**1,422,828**	230,794	2,950,137
Net cash provided by operating activities	**2,556,109**	17,437,132	24,375,227
Investing activities			
Net change in federal funds sold	**(6,433,875)**	(1,447,663)	(11,264,397)
Net change in reverse repurchase agreements	**4,000,000**	–	10,000,000
Proceeds from maturities of investment securities held-to-maturity	**8,375,465**	1,921,232	1,165,586
Proceeds from maturities of investment securities available-for-sale	**11,518,393**	42,527,411	24,186,692
Proceeds from sales of investment securities available-for-sale	**–**	–	19,952,500
Purchases of investment securities held-to-maturity	**(10,548,243)**	(30,311,560)	(51,426,350)
Purchases of investment securities available-for-sale	**(1,478,594)**	(20,986,074)	(21,491,649)
Net increase in loans	**(63,312,198)**	(37,559,511)	(74,601,099)
Purchases of premises and equipment	**(1,573,196)**	(3,324,070)	(1,562,075)
Net cash used in investing activities	**(59,452,248)**	(49,180,235)	(105,040,792)
Financing activities			
Net increase in deposits	**100,767,918**	80,884,670	55,893,965
Net change in security repurchase agreements	**5,576,926**	(30,606,224)	12,605,580
Net change in FHLB advances	**(10,000,000)**	(8,000,000)	(10,000,000)
Proceeds from issuance of long-term debt	**–**	–	3,000,000
Repurchase of stock	**(1,936,368)**	(1,693,222)	(3,779,334)
Income tax benefit from exercise of options (FASB 123(R))	**481,824**	–	–
Proceeds from issuance of stock	**1,010,064**	556,922	1,386,574
Net cash provided by financing activities	**95,900,364**	41,142,146	59,106,785
Increase (decrease) in cash and cash equivalents	**39,004,225**	9,399,043	(21,558,780)
Cash and cash equivalents at beginning of year	**32,223,665**	22,824,622	44,383,402
Cash and cash equivalents at end of year	**$ 71,227,890**	$ 32,223,665	$ 22,824,622
Interest paid	**$ 28,639,659**	$ 20,394,928	$ 12,959,914
Income taxes paid	**$ 4,137,770**	$ 4,293,994	$ 1,368,989

See accompanying notes.

1. Organization and Significant Accounting Policies

Organization

The National Bank of Indianapolis Corporation (the Corporation) was incorporated in the state of Indiana on January 29, 1993. The Corporation subsequently formed a de novo national bank, The National Bank of Indianapolis (the Bank), and a statutory trust, NBIN Statutory Trust I (the Trust). The Bank is a wholly owned subsidiary and commenced operations in December 1993. The Trust was formed in September 2000 as part of the issuance of trust preferred capital securities. The Corporation and the Bank engage in a wide range of commercial, personal banking, and trust activities primarily in central Indiana.

The consolidated financial statements are prepared in accordance with United States generally accepted accounting principals (GAAP) and include the accounts of the Corporation and the Bank. In accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46(R), *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* (FIN 46), the Corporation does not consolidate the Trust in its financial statements. See Note 4, "Trust Preferred Securities" in the notes to the consolidated financial statements of this report for further information. All intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and interest-bearing deposits. Interest-bearing deposits are available on demand.

Investment Securities

Investments in debt securities are classified as held-to-maturity or available-for-sale. Management determines the appropriate classification of the securities at the time of purchase based on a policy approved by the Board of Directors.

When the Corporation classifies debt securities as held-to-maturity, it has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost.

1. Organization and Significant Accounting Policies (continued)

Debt securities not classified as held-to-maturity are classified as available-for-sale. Available-for-sale securities are stated at fair value, with the unrealized gains and losses, net of tax, reported as a component of other comprehensive income, net of taxes.

The amortized cost of debt securities classified as held-to-maturity or available-for-sale is adjusted for amortization of premiums and accretion of discounts on the constant effective yield method to maturity, or in the case of mortgage-backed securities, over the estimated life of the security. Such amortization is included in interest income from investments. Interest and dividends are included in interest income from investments. Realized gains and losses, and declines in market value judged to be other-than-temporary, are included in losses on sale of securities, net. The cost of securities sold is based on the specific identification method.

Loans

Interest income on commercial, mortgage, and consumer loans is accrued on the principal amount of such loans outstanding and is recognized when earned. Loans are placed on nonaccrual status when significant doubt exists as to the collectibility of principal or interest. Interest continues to legally accrue on these non-accrual loans, but no income is recognized for financial statement purposes. Both principal and interest payments received on non-accrual loans are applied to the outstanding principal balance, until the remaining balance is considered collectible, at which time interest income may be recognized when received.

Loan origination fees and certain direct origination costs are deferred and are amortized over the life of the loan.

The Corporation periodically sells residential mortgage loans it originates based on the overall loan demand of the Corporation and outstanding balances of the residential mortgage portfolio. Loans held for sale are carried at the lower of cost or market, determined on an aggregate basis. Gains from the sale of these loans into the secondary market are included in mortgage banking income.

Allowance for Loan Losses

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

1. Organization and Significant Accounting Policies (continued)

The allowance for loan losses is maintained at a level believed adequate by management to absorb inherent losses in the loan portfolio. The determination of the allowance is based on factors which, in management's judgment, deserve recognition under existing economic conditions in estimating possible loan losses. This evaluation is inherently subjective as it requires material estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change.

The allowance for loan losses is allocated to each loan category based on specific allocations assigned to classified loans, allocations assigned to pools of loans with similar risk characteristics, three-year historical loss percentages assigned to the pass portion of the portfolio, and qualitative factors. The allowance for loan losses allocated to classified loans is based on cash flows using the loan's initial effective interest rate or the fair value of the collateral less costs to sell for collateral dependent loans. The qualitative factors include: level of and trends in delinquencies and impaired loans; level of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; experience, ability, and depth of lending department; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. Although the allowance for loan losses is allocated by loan category, the entire allowance is available to cover any loan loss that may occur.

Mortgage Servicing Rights

Mortgage servicing rights are recognized as separate assets when rights are acquired through sale of mortgage loans. Capitalized servicing rights are reported in other assets and are amortized and netted against mortgage banking income in proportion to, and over the period of, the estimated future servicing income of the underlying financial assets. Mortgage servicing rights are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as loan type, interest rates, maturities, and other terms. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Estimates of fair value include assumptions about loan prepayment speeds, servicing costs and revenues, interest rates, and other factors which may change over time. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the cost of the rights for each stratum. Mortgage servicing rights are also evaluated for other-than-temporary impairment. Other-than-temporary impairment exists when the recoverability of the valuation allowance is determined to be remote taking into

1. Organization and Significant Accounting Policies (continued)

consideration historical and projected interest rates and loan pay-off activity. When this situation occurs, the unrecoverable portion of the valuation allowance is applied as a direct write-down to the carrying value of the mortgage servicing rights. Unlike a valuation allowance, a direct write-down permanently reduces the carrying value of the mortgage servicing rights and the valuation allowances, precluding subsequent recoveries.

Derivative Instruments and Hedging Activities

During the second quarter of 2004, the Corporation entered into a three-year interest rate swap to mitigate the risk of adverse interest rate movements on the value of future cash flows related to its investment in overnight federal funds sold. Pursuant to FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (FASB No. 133), cash flow hedges are accounted for by recording the fair value of the derivative instrument on the consolidated balance sheets as either an asset or liability, with a corresponding offset recorded in other comprehensive income within shareholders' equity, net of tax, to the extent effective. See Note 6, "Derivative Instruments and Hedging Activities" in the notes to consolidated financial statements of this report for further information.

Under the cash flow hedge accounting method, derivative gains and losses not effective in hedging the change in expected cash flows of the hedged item are recognized immediately in the consolidated income statements. At the hedge's inception and quarterly thereafter, a formal assessment is performed to determine whether changes in cash flows of the derivative instrument have been highly effective in offsetting changes in the cash flows of the hedged item and whether they are expected to be highly effective in the future. If it is determined a derivative instrument has not been, or will not continue to be, highly effective as a hedge, hedge accounting is discontinued.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation computed by the straight-line method over their useful lives or, for leasehold improvements, the shorter of the remaining lease term or useful life of the asset. Maintenance and repairs are charged to operating expense when incurred, while improvements that extend the useful life of the assets are capitalized and depreciated over the estimated remaining life.

1. Organization and Significant Accounting Policies (continued)

Comprehensive Income

Comprehensive income is defined as net income plus other comprehensive income, which, under existing accounting standards, includes unrealized gains and losses on available-for-sale debt securities and unrealized gains or losses on interest rate swaps utilized in an effective cash flow hedge program. Comprehensive income is reported by the Corporation in the consolidated statements of shareholders' equity.

Earnings Per Share

Basic earnings per share is computed by dividing net income applicable to common shareholders by the weighted-average number of shares of common shares outstanding for the period. Diluted earnings per share is computed by dividing net income applicable to common shareholders by the sum of the weighted-average number of shares and the potentially dilutive shares that could be issued through stock award programs or convertible securities.

Fair Values of Financial Instruments

The fair values of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment concerning several factors, especially in the absence of broad markets for particular items.

Stock-Based Compensation

The Corporation has granted stock options to certain employees and directors. The stock options are for a fixed number of shares with an exercise price which approximates the fair value of shares at the date of grant, and, upon exercised, the Corporation issues the shares out of common stock. Prior to January 1, 2006, the expense for director and employee compensation under stock option plans was based on Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), with expense reported only if options were granted with an exercise price below the market price on the grant date. Because the exercise price of the Corporation's director and employee stock options equaled the market price of the underlying stock on the date of grant, no compensation expense was recognized prior to January 1, 2006.

1. Organization and Significant Accounting Policies (continued)

On January 1, 2006, the Corporation adopted FASB Statement No. 123(R)'s, *Share-Based Payment* (FASB No. 123(R)), using the "modified prospective" transition method. FASB No. 123(R) requires that stock based compensation to employees be recognized as compensation cost in the income statement based on their fair value on measurement date, which for the Corporation is the date of grant. The modified prospective method recognizes compensation costs beginning on January 1, 2006: (a) based on the requirements of FASB No. 123(R) for all share-based payments granted after that date and (b) based on the requirements of FASB Statement No. 123, *Accounting for Stock-Based Compensation* (FASB No. 123), for all awards granted to employees prior to that date that remain unvested prior to 2006. The following table illustrates the effect on net income and earnings per share of the Corporation had it applied the fair value recognition provisions of FASB No. 123, as amended by FASB Statement No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FASB Statement No. 123* (FASB No. 148), for stock-based compensation for the period ended December 31, 2005 and 2004.

	2005	**2004**
Net income, as reported	**$ 6,262,526**	$ 5,681,049
Add stock-based compensation expense, net of related taxes	**155,340**	181,167
Less total stock-based compensation expense determined under fair-value-based method, net of taxes	**(286,764)**	(358,475)
Pro forma net income	**$ 6,131,102**	$ 5,503,741
Earnings per share:		
Basic, as reported	**$ 2.72**	$ 2.47
Basic, pro forma	**$ 2.67**	$ 2.39
Diluted, as reported	**$ 2.62**	$ 2.37
Diluted, pro forma	**$ 2.57**	$ 2.30

1. Organization and Significant Accounting Policies (continued)

FASB No. 123(R) requires that cash flows resulting from the tax benefits of tax deductions in excess of recognized compensation expense be reported as financing cash flows, rather than as operating cash flows as required by APB 25. While total cash flow remains unchanged, this requirement reduces operating cash flows and increases net financing cash flows by the same amount in periods after adoption. The amount of operating cash flows recognized in prior periods for such excess tax deductions was $172,650 and $817,610 in 2005 and 2004, respectively. In 2006, the amount of financing cash flows recognized for such excess tax deductions was $481,824.

In addition, the effects of adopting FASB No. 123(R), relating to earnings per share, are presented in the table below.

Effect of Adoption of FASB No. 123(R)

	Twelve Months Ended December 31, 2006	
	As Reported	**Effect of Adopting FASB No. 123(R)**
Income before tax	$ 10,485,725	$ (551,157)
Net income	7,062,225	(332,844)
Basic earnings per share	$ 3.07	$ (0.14)
Diluted earnings per share	$ 2.94	$ (0.13)

Reportable Segments

The Corporation has determined that it has one reportable segment, banking services. The Bank provides a full range of deposit, credit, and money management services to its target markets, which are small to medium size businesses, affluent executive and professional individuals, and not-for-profit organizations in the Indianapolis Metropolitan Statistical Area, Indiana.

1. Organization and Significant Accounting Policies (continued)

Income Taxes

The Corporation and the Bank file a consolidated federal income tax return. The provision for income taxes is based upon income in the financial statements, rather than amounts reported on the Corporation's income tax return.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled.

Securities Purchased Under Resale Agreements and Securities Sold Under Repurchase Agreements

Securities purchased under resale agreements and securities sold under repurchase agreements are generally treated as collateralized financing transactions and are recorded at the amount at which the securities were acquired or sold plus accrued interest. Securities, generally U.S. government and Federal agency securities, pledged as collateral under these financing arrangements cannot be sold by the secured party. The fair value of collateral either received from or provided to a third party is monitored and additional collateral is obtained or requested to be returned as deemed appropriate.

Reclassifications

Certain amounts in the 2005 and 2004 consolidated financial statements have been reclassified to conform with the 2006 presentation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. New Accounting Pronouncements

On December 15, 2006 the Securities and Exchange Commission ("SEC") extended the compliance dates regarding its internal controls over financial reporting requirements for companies that are not "accelerated filers," as defined. Under the new compliance schedule, a company that is not an accelerated filer will be required to provide management's report on the effectiveness of internal control over financial reporting after its first fiscal year ending on or after December 15, 2007. The auditors' attestation report on internal controls over financial reporting will be required after the first fiscal year ending on or after December 15, 2008.

In February 2006, the FASB issued Statement No. 155, *Accounting for Certain Hybrid Financial Instruments* (FASB No. 155), an amendment of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (FASB No. 140). FASB No. 155 permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation and clarifies which interest-only strips and principal-only strips are not subject to the requirements of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (FASB No. 133). FASB No. 133 establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation and clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives. Additionally, FASB No. 155 amends FASB No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. FASB No. 155 is effective for the Corporation on January 1, 2007, and is not expected to have a significant impact on the Corporation's financial statements.

In March 2006, the FASB issued Statement No. 156, *Accounting for Servicing of Financial Assets* (FASB No. 156), an amendment of FASB No. 140. FASB No. 156 requires all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable, and permits the entities to elect either fair value measurement with changes in fair value reflected in earnings or the amortization and impairment requirements of FASB No. 140 for subsequent measurement. The subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value eliminates the necessity for entities that manage the risks inherent in servicing assets and servicing liabilities with derivatives to qualify for hedge accounting treatment and eliminates the characterization of declines in fair value as impairments or direct write-downs. FASB No. 156 is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006. Earlier adoption was permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including

2. New Accounting Pronouncements (continued)

interim financial statements for any period of that fiscal year. Management will adopt FASB No. 156 on January 1, 2007, and does not expect the adoption to have a significant impact on the Corporation's financial statements.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. The interpretation provides guidance on a threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. FIN 48 is effective for the Corporation on January 1, 2007. Management does not expect the adoption of FIN 48 to have a significant impact on the Corporation's financial statements.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (FASB No. 157). FASB No. 157 defines fair value, establishes a framework for measuring fair value in Generally Accepted Accounting Principles (GAAP), and expands disclosures about fair value measurements. Prior to FASB No. 157, there were different definitions of fair value with limited guidance for applying those definitions in GAAP; additionally, the issuance for applying fair value was dispersed among many accounting pronouncements that require fair value measurement. FASB No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Early adoption is encouraged provided that the entity has not yet issued financial statements, including interim financial statements for any period of the fiscal year in which the entity adopted FASB No. 157. Management does not expect the adoption of FASB No. 157 to have a significant impact on the Corporation's financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115* (SFAS 159) which permits entities to measure eligible financial instruments and certain other items at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007, however early adoption is permitted. Management is assessing the impact of SFAS 159 on its financial statements.

3. Restrictions on Cash and Due from Bank Accounts

The Corporation is required to maintain average reserve balances with the Federal Reserve Bank or as cash on hand or on deposit with a correspondent bank. The required amount of reserve was approximately $25,000 at December 31, 2006 and 2005.

4. Trust Preferred Securities

In September 2000, the Corporation established the Trust, a Connecticut statutory business trust, which subsequently issued $13,500,000 of company obligated mandatorily redeemable capital securities and $418,000 of common securities. The proceeds from the issuance of both the capital and common securities were used by the Trust to purchase from the Corporation $13,918,000 fixed rate junior subordinated debentures. The capital securities and debentures mature September 7, 2030, or upon earlier redemption as provided by the Indenture. The Corporation has the right to redeem the capital securities, in whole or in part, but in all cases, in a principal amount with integral multiples of $1,000, on any March 7 or September 7 on or after September 7, 2010, at a premium, declining ratably to par on September 7, 2020. The capital securities and the debentures have a fixed interest rate of 10.60% and are guaranteed by the Bank. The subordinated debentures are the sole assets of the Trust, and the Corporation owns all of the common securities of the Trust. The net proceeds received by the Corporation from the sale of capital securities were used for general corporate purposes. The indenture, dated September 7, 2000, requires compliance with certain nonfinancial covenants.

In accordance with FIN 46(R), the Corporation does not consolidate the Trust in its financial statements. The junior subordinated debt obligation issued to the Trust of $13,918,000 for December 31, 2006 and 2005, respectively, is reflected in the Corporation's consolidated balance sheets. The junior subordinated debentures owed to the Trust and held by the Corporation qualify as Tier 1 capital for the Corporation under Federal Reserve Board guidelines.

5. Investment Securities

The following is a summary of available-for-sale and held-to-maturity securities:

	Available-for-Sale Securities			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
December 31, 2006				
U.S. treasury securities	**$ 1,495,336**	**$ –**	**$ 981**	**$ 1,494,355**
U.S. government agencies	**60,000,000**	**–**	**720,799**	**59,279,201**
Collateralized mortgage obligations	**16,659**	**7**	**–**	**16,666**
	$ 61,511,995	**$ 7**	**$ 721,780**	**$ 60,790,222**
December 31, 2005				
U.S. treasury securities	$ 1,494,394	$ –	$ 2,009	$ 1,492,385
U.S. government agencies	70,000,000	–	1,525,300	68,474,700
Collateralized mortgage obligations	35,052	–	12	35,040
	$ 71,529,446	$ –	$ 1,527,321	$ 70,002,125

5. Investment Securities (continued)

	Held-to-Maturity Securities			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
December 31, 2006				
Municipals	**$ 46,247,490**	**$ 247,212**	**$ 211,345**	**$ 46,283,357**
Collateralized mortgage obligations	**39,724,743**	**–**	**952,366**	**38,772,377**
Other securities	**225,000**	**1,182**	**2,325**	**223,857**
	$ 86,197,233	**$ 248,394**	**$ 1,166,036**	**$ 85,279,591**
December 31, 2005				
Municipals	$ 35,715,981	$ 315,262	$ 582,213	$ 35,449,030
Collateralized mortgage obligations	47,791,685	–	1,400,263	46,391,422
Other securities	225,000	2,202	1,598	225,604
	$ 83,732,666	$ 317,464	$ 1,984,074	$ 82,066,056

The amortized cost, fair value, and weighted-average yield of investment securities at December 31, 2006, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call and/or prepay obligations prior to maturity. Collateralized mortgage obligations are allocated based on the average life at December 31, 2006.

	Available-for-Sale Securities				
	Within 1 Year	1 to 5 Years	5 to 10 Years	Total	Weighted-Average Yield
U.S. treasury and U.S. government agency debentures	$ 1,495,336	$ 60,000,000	$ –	$ 61,495,336	3.94%
Collateralized mortgage obligations	16,659	–	–	16,659	5.77%
Amortized cost	$ 1,511,995	$ 60,000,000	$ –	$ 61,511,995	
Fair value	$ 1,511,021	$ 59,279,201	$ –	$ 60,790,222	
Weighted-average yield	4.64%	3.92%	–	3.94%	

5. Investment Securities (continued)

	Held-to-Maturity Securities					
	Within 1 Year	1 to 5 Years	5 to 10 Years	Greater Than 10 Years	Total	Weighted-Average Yield
Other securities	$ 50,000	$ 175,000	$ –	$ –	$ 225,000	4.56%
Municipals	–	5,538,783	33,669,184	7,039,523	46,247,490	3.93%
Collateralized mortgage obligations	–	39,724,743	–	–	39,724,743	3.43%
Amortized cost	$ 50,000	$ 45,438,526	$ 33,669,184	$ 7,039,523	$ 86,197,233	
Fair value	$ 49,793	$ 44,710,757	$ 33,515,106	$ 7,003,935	$ 85,279,591	
Weighted-average yield	5.35%	3.62%	3.78%	3.87%	3.70%	

The Corporation held 90 investment securities as of December 31, 2006, of which the amortized cost was greater than market value. The majority of these investment securities were purchased during 2005 and 2006. Management does not believe any individual unrealized loss as of December 31, 2006, represents an other-than-temporary impairment. The unrealized losses relate primarily to securities issued by the U.S. Treasury, FHLMC, and Municipalities. The unrealized losses in the securities issued by the U.S. Treasury and FHLMC are primarily attributable to changes in interest rates, and individually were 2.96% or less of their respective amortized cost basis. Accordingly, the Corporation believes the credit risk embedded in these securities to be inherently low and is primarily attributable to changes in interest rates. The Corporation has both the intent and ability to hold these securities for a time necessary to recover the amortized cost. The unrealized losses in the securities issued by the Municipalities are classified as held-to-maturity.

	Available-for-Sale Securities							
	Less Than 12 Months in an Unrealized Loss Position			Greater Than 12 Months in an Unrealized Loss Position				
	Unrealized Loss Amount	Number of Securities	Estimated Fair Value	Unrealized Loss Amount	Number Of Securities	Estimated Fair Value	Total Unrealized Loss Amount	Total Estimated Fair Value
U.S. treasury securities	$ 981	3	$ 1,494,355	$ –	–	$ –	$ 981	$ 1,494,355
U.S. government agencies	–	–	–	720,799	3	59,279,201	720,799	59,279,201
	$ 981	3	$ 1,494,355	$ 720,799	3	$59,279,201	$ 721,780	$60,773,556

5. Investment Securities (continued)

	Held-to-Maturity Securities							
	Less Than 12 Months in an Unrealized Loss Position			Greater Than 12 Months in an Unrealized Loss Position				
	Unrealized Loss Amount	Number of Securities	Estimated Fair Value	Unrealized Loss Amount	Number of Securities	Estimated Fair Value	Total Unrealized Loss Amount	Total Estimated Fair Value
Collateralized mortgage obligations	$ –	–	$ –	$ 952,366	3	$ 38,772,377	$ 952,366	$ 38,772,377
Municipal bonds	73,284	26	9,725,059	138,061	49	25,094,018	211,345	34,819,077
Other securities	555	1	24,445	1,770	5	123,230	2,325	147,675
	$ 73,839	27	$9,749,504	$1,092,197	57	$ 63,989,625	$1,166,036	$ 73,739,129

Investment securities with a carrying value of approximately $60,000,000 and $51,000,000 at December 31, 2006 and 2005, respectively, were pledged as collateral for bankruptcy accounts to the U.S. Department of Justice, Treasury Tax and Loan, and securities sold under agreements to repurchase.

6. Derivative Instruments and Hedging Activities

During the second quarter of 2004, the Corporation entered into a three-year interest rate swap to reduce the volatility of variable interest payments received on a portion of its overnight federal funds sold. This interest rate swap qualified as, and is being accounted for as, a cash flow hedge pursuant to FASB No. 133. FASB No. 133 requires changes in the fair value of cash flow hedges to be reported as a component of other comprehensive income, net of taxes to the extent that the hedge is effective.

	December 31, 2006			December 31, 2005		
	Notional Amount	Derivative Liability	Net Ineffectiveness Hedge Gains (Losses)	Notional Amount	Derivative Liability	Net Ineffectiveness Hedge Gains (Losses)
Receive fixed interest rate swap	**$20,000,000**	**$160,795**	**$ –**	$20,000,000	$536,902	$ –

7. Loans and Allowance for Loan Losses

Loans consist of the following at December 31:

	2006	2005
Residential loans secured by real estate	**$271,374,185**	$245,939,099
Commercial loans secured by real estate	**141,955,758**	138,075,123
Other commercial and industrial loans	**278,924,252**	252,528,082
Consumer loans	**52,283,739**	47,945,498
Total loans	**744,537,934**	684,487,802
Less allowance for loan losses	**(8,513,098)**	(8,346,390)
Total loans, net	**$736,024,836**	$676,141,412

The Corporation periodically sells residential mortgage loans it originates based on the overall loan demand of the Corporation and outstanding balances of the residential mortgage portfolio. As of December 31, 2006 loans held for sale totaled $1,485,000, and are included in the totals above.

Activity in the allowance for loan losses was as follows:

	2006	2005	2004
Beginning balance	**$8,346,390**	$7,795,803	$ 8,029,596
Loans charged off (net)	**(919,292)**	(1,534,413)	(1,553,793)
Provision for loan losses	**1,086,000**	2,085,000	1,320,000
Ending balance	**$8,513,098**	$8,346,390	$ 7,795,803

A loan is considered delinquent when a payment has not been made more than 30 days past its contractual due date. Loans past due over 30 days totaled $6,930,918 or .93% of total loans at December 31, 2006, compared to $4,417,657 or .65% of total loans at December 31, 2005.

7. Loans and Allowance for Loan Losses (continued)

Loans are considered to be impaired when it is determined that the obligor will not pay all contractual principal and interest when due. At December 31, 2006, 35 loans with a total balance of $7,152,091 were considered to be impaired and are on a non-accrual status. At December 31, 2005, 38 loans with a total balance of $3,648,491 were considered to be impaired. The average combined balance of impaired loans during 2006, 2005, and 2004 was $3,723,000, $2,964,000, and $3,542,000, respectively. For loans classified as impaired at December 31, 2006, the contractual interest due and the actual accrued interest recorded and paid on those loans during 2006 was $467,885 and $218,190, respectively. The related allowance on impaired loans at December 31, 2006 and 2005 was $450,320 and $865,268, respectively.

At December 31, 2006 and 2005, there were approximately $33,330 and $0, respectively, of loans greater than 90 days past due and still accruing interest.

Loans are made principally to borrowers in the central Indiana area.

The amount of loans pledged as collateral for FHLB advances as of December 31, 2006 and 2005 was $20,300,000 and $34,800,000, respectively.

8. Premises and Equipment

Premises and equipment consist of the following at December 31:

	2006	2005
Land and improvements	**$ 2,859,400**	$ 2,270,444
Building and improvements	**7,833,610**	7,614,341
Construction-in-progress	**102,734**	101,405
Leasehold improvements	**1,628,213**	1,628,213
Furniture and equipment	**9,975,436**	9,351,948
	22,399,393	20,966,351
Less accumulated depreciation and amortization	**(10,332,505)**	(9,093,955)
Net premises and equipment	**$12,066,888**	$11,872,396

Certain Corporation facilities and equipment are leased under various operating leases. Rental expense under these leases was $359,839, $363,640, and $260,378 for 2006, 2005, and 2004, respectively.

8. Premises and Equipment (continued)

Future minimum rental commitments under noncancelable leases are:

2007	$ 323,894
2008	327,566
2009	286,865
2010	190,477
2011	135,012
Thereafter	995,424
	$2,259,238

9. Mortgage Banking Activities

The Corporation may sell certain originated mortgage loans into the secondary market as part of its overall risk management and liquidity strategy. The Corporation typically retains the responsibility for servicing these mortgage loans in return for a servicing fee received from the purchaser. Mortgage loans sales of $16,233,576 and $18,372,384 occurred during 2006 and 2005, and gains of $156,583 and $82,493 were recognized on these loan sales in the respective periods. Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. However, an asset representing the allocated basis of the mortgage servicing rights is recognized upon the sale of the underlying mortgage loan. The unpaid principal balances of mortgage loans serviced for others were $102,702,934 and $99,128,860 at December 31, 2006 and 2005, respectively.

Gains and losses on the sales of mortgage loans, along with the amortization of mortgage servicing rights, is included in mortgage banking income on the consolidated statements of income.

The following table is a breakdown of mortgage servicing rights:

	2006	2005
Balance at January 1	**$ 1,482,554**	$ 1,571,712
Plus additions	**169,504**	173,327
Less amortization	**(266,327)**	(262,485)
Balance at December 31	**1,385,731**	1,482,554
Less valuation allowance	**(59,128)**	(182,218)
Balance, net	**$ 1,326,603**	$ 1,300,336

9. Mortgage Banking Activities (continued)

Mortgage servicing rights are amortized in proportion to, and over the period of, estimated servicing income. Future amortization expense may be different depending on changes in the mortgage servicing pool, interest rates, and market conditions.

10. Deposits

Deposits are summarized as follows:

	December 31	
	2006	**2005**
Demand accounts:		
Noninterest bearing	**$ 181,953,564**	$ 171,857,446
Interest bearing	**105,118,470**	105,265,553
Total demand accounts	**287,072,034**	277,122,999
Money market accounts	**388,255,230**	348,796,150
Savings accounts	**11,940,581**	11,158,554
Certificate accounts:		
Over $100,000	**107,050,693**	66,209,839
Under $100,000	**80,765,095**	71,028,173
Total deposits	**$ 875,083,633**	$ 774,315,715

At December 31, 2006, the stated maturities of time deposits are as follows:

	Less Than $100,000	**Greater Than $100,000**
Mature in three months or less	$ 19,453,676	$ 38,581,841
Mature after three months	14,634,859	18,559,009
Mature after six months through twelve months	26,327,113	37,329,149
Mature in 2008	10,527,837	6,732,562
Mature in 2009	4,332,761	2,118,141
Mature in 2010	1,442,682	781,665
Mature in 2011	608,560	1,064,717
Thereafter	3,437,607	1,883,609
	$ 80,765,095	$107,050,693

11. Other Borrowings

Security repurchase agreements are short-term borrowings that generally mature within one to three days from the transaction date. At December 31, 2006 and 2005, the weighted-average interest rate on these borrowings was 3.96% and 2.51%, respectively.

All of the FHLB advances have a fixed interest rate and require monthly interest payments. The principal balances for each of the advances is due at maturity. The advances are collateralized by a pledge covering certain of the Corporation's mortgage loans.

A schedule of the FHLB advances as of December 31, 2006 and 2005 is as follows:

2006			2005		
Amount	**Rate**	**Maturity**	**Amount**	**Rate**	**Maturity**
$ 8,000,000	**4.19%**	**07/24/2007**	$ 5,000,000	5.43%	03/16/2006
3,000,000	**5.57%**	**08/13/2007**	5,000,000	5.32%	05/08/2006
3,000,000	**5.55%**	**10/02/2008**	8,000,000	4.19%	07/24/2007
			3,000,000	5.57%	08/13/2007
			3,000,000	5.55%	10/02/2008
$14,000,000			$ 24,000,000		

The Corporation maintains a revolving credit agreement with Harris Trust and Savings Bank in the amount of $5,000,000 that will mature on September 30, 2007. At December 31, 2006 and 2005, $0 was outstanding. The Corporation pays a commitment fee of .25% per annum on the average daily unused portion of the line of credit.

The Bank entered into a $5,000,000 subordinated term loan agreement with Harris Trust and Savings Bank dated June 6, 2003. The first advance was made in the amount of $2,000,000 on June 6, 2003. The second advance was made in the amount of $3,000,000 on May 3, 2004. The final maturity date of the loan is June 6, 2012. The outstanding principal balance is permitted to be repaid prior to maturity with prior consent from the Federal Reserve. There are many different interest rate options available. Each floating rate option is available for a fixed term of one to three months. The Bank is currently paying adjusted three-month LIBOR plus 2.0% which equates to 7.37% at December 31, 2006. Interest payments are due at the expiration of the fixed term option.

12. Equity-Based Compensation

The Board of Directors and the shareholders of the Corporation adopted stock option plans for directors and key employees at the initial formation of the Bank in 1993. The Board of Directors authorized 130,000 shares in 1993, 90,000 shares in 1996, 150,000 shares in 1999, and an additional 120,000 during 2002 to be reserved for issuance under the Corporation's stock option plan. In May 2003, the director stock option plan was dissolved, and in June 2005, the key employee stock option plan was dissolved; however, all of the options in these plans remain exercisable for a period of ten years from the date of issuance, subject to the terms and conditions of the plans.

Stock Option Plans

Shares subject to outstanding options related to the directors' and key employees' stock option plans are summarized as follows:

	2006		2005		2004	
	Options	**Weighted-Average Exercise Price**	**Options**	**Weighted-Average Exercise Price**	**Options**	**Weighted-Average Exercise Price**
Options outstanding at beginning of year	**257,525**	**$22.52**	278,056	$21.99	379,695	$19.15
New options granted	–	–	–	–	6,892	33.92
Options exercised	**(43,683)**	**16.71**	(19,531)	14.70	(101,931)	11.70
Options forfeited	**(1,600)**	**27.75**	(1,000)	27.75	(6,600)	28.52
Options outstanding at end of year	**212,242**	**23.67**	257,525	$22.52	278,056	$21.99
Exercisable at year end	**135,679**	**$21.13**	173,820	$19.77	187,321	$19.17

The intrinsic value of the options outstanding and the options exercisable at December 31, 2006 was $5,031,839 and $3,562,133, respectively.

12. Equity-Based Compensation (continued)

The weighted-average fair value of the options granted during 2004 was $12.19 determined using the Black-Scholes option pricing model. The weighted-average exercise price of the options was $33.92.

The table presented below is a summary of the Corporation's nonvested stock options under these plans and the changes during the year ended December 31, 2006:

2006	Options	Weighted-Average Grant Date Fair Value
Nonvested options at beginning of year	83,705	$28.22
Granted	–	–
Vested	(5,542)	$28.78
Forfeited	(1,600)	$27.75
Nonvested options at end of year	76,563	$28.18

As of December 31, 2006, there was $106,450 of total unrecognized compensation cost related to nonvested, share-based compensation arrangements granted under the key employee stock option plan which is expected to be recognized over a weighted-average period of 0.62 years. The compensation cost that was recognized during 2006 was $191,327.

As of December 31, 2006, there are 135,679 options which are exercisable under the plan with exercises prices ranging from $12.50 to $34.50. The weighted-average contractual life of those options is 3.1 years.

As of December 31, 2006, the total options outstanding under the plans are 212,242 with option prices ranging from $12.50 to $34.50. The weighted-average remaining contractual life of those options is four years.

During 2006, certain officers/directors of the Corporation exercised their options to purchase 43,683 shares of common stock for proceeds of $729,890. The exercise price ranged from $12.50 to $27.50 with a weighted-average exercise price of $16.71 and a weighted-average fair market value of $44.95. The total aggregate intrinsic value of options exercised during 2006 was $1,233,560.

12. Equity-Based Compensation (continued)

During 2005, certain officers/directors of the Corporation exercised their options to purchase 19,531 shares of common stock for proceeds of $287,092. The exercise price ranged from $10.00 to $27.50 with a weighted-average exercise price of $14.70 and a weighted-average fair market value of $37.30. The total aggregate intrinsic value of options exercised during 2005 was $441,503.

During 2004, certain officers/directors of the Corporation exercised their options to purchase 101,931 shares of common stock for proceeds of $1,192,602. The exercise price ranged from $10.00 to $27.50 with a weighted-average exercise price of $11.70 and a weighted-average fair market value of $32.99. The total aggregate intrinsic value of options exercised during 2004 was $2,170,371.

Due to the exercise of the options, the Corporation received a deduction for tax purposes for the difference between the fair value of the stock at the date of the exercise and the exercise price. In accordance with FASB No. 123(R), the Corporation has recorded an income tax benefit of $481,824 as additional paid-in capital during 2006. In accordance with APB 25, the Corporation recorded an income tax benefit of $172,650 and $817,610 as additional paid-in capital during 2005 and 2004, respectively.

2005 Equity Incentive Plan

During 2005, the Board of Directors and the shareholders of the Corporation adopted The National Bank of Indianapolis Corporation 2005 Equity Incentive Plan. The maximum number of shares to be delivered upon exercise of all options and restricted stock awarded under the plan will not exceed 333,000 shares.

In May 2006, the Corporation’s Compensation Committee granted 178,800 options with a five year cliff vest. The options have a weighted-average fair value of $17.89 determined using the Black-Scholes option pricing model. The weighted-average exercise price of the options was $43.38. There were no grants during 2005 under this plan.

12. Equity-Based Compensation (continued)

Shares subject to outstanding options related to the 2005 Equity Incentive Plan are summarized as follows:

	2006	
	Options	**Weighted-Average Exercise Price**
Options outstanding at beginning of year	–	–
New options granted	**178,800**	**$43.38**
Options exercised	–	–
Options forfeited	**(2,800)**	**$43.38**
Options outstanding at end of year	**176,000**	**$43.38**
Exercisable at year end	–	–

The total intrinsic value of the options outstanding and the options exercisable at December 31, 2006, was $704,000 and $0, respectively.

As of December 31, 2006, there was $2,123,623 of total unrecognized compensation costs related to nonvested, share-based compensation arrangements granted under the 2005 Equity Incentive Plan which is expected to be recognized over the weighted-average period of 4.4 years. The compensation cost that was recognized during 2006 was $359,830.

As of December 31, 2006, the total shares which may be purchased under the plan is 176,000 with an option price of $43.38. The weighted-average remaining contractual life of those options is nine years.

The fair value for the options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions: a dividend yield; volatility

12. Equity-Based Compensation (continued)

factor of the expected market price of the Corporation's common stock; an expected life of the options of ten years; and the risk-free interest rate. The fair value for the restricted stock is estimated to equal the fair value of unrestricted stock and to be restricted for five years.

The following is a summary of the weighted-average assumptions used in the Black-Scholes pricing model:

Year	Dividend Yield	Volatility Factor	Risk-Free Rate
2006	–	.049623	5.32%
2005	–	–	–
2004	–	.054485	4.40%

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility.

Restricted Stock Plan

The Board of Directors also approved a restricted stock plan in 1993. Shares reserved by the Corporation for the restricted stock plan include 50,000 shares in 1993, 20,000 shares in 1996, 40,000 in 1999, and an additional 55,000 shares in 2002. Under this plan, shares were issued in the proceeding years as detailed in the following table. Prior to January 1, 2006, the Corporation recorded each stock issuance in shareholders' equity at an amount equal to the fair market value of the shares at the grant date with an offsetting amount recorded to unearned compensation (contra-equity). The unearned compensation was amortized to salary expense over the vesting period. On January 1, 2006, the Corporation adopted FASB No. 123(R) and reversed the remaining unearned compensation from the unearned compensation (contra-equity) account and the stock issuance recorded in common stock and recorded the amount of compensation expense earned on restricted stock to additional paid-in capital (APIC). Subsequent to January 1, 2006, compensation expense for the fair value of the restricted stock granted is earned over the vesting period and recorded to APIC. When the restricted stock vests, then the fair value of the stock at the date of grant is recorded as an issuance of common stock and removed from APIC. In June

12. Equity-Based Compensation (continued)

2005, the restricted stock plan was dissolved, and no additional restricted stock will be issued from this plan.

Fiscal Year Ended	Number of Shares Issued	Shares Forfeited	Fair Value at Grant Date	Vesting Schedule	Date Fully Vested
1999	36,000	2,000	646,000	5-year cliff	June 30, 2004
2000	5,000	–	100,000	5-year cliff	March 16, 2005
2001	3,000	–	69,000	5-year cliff	January 26, 2006
2002	1,500	–	37,500	5-year cliff	June 11, 2006
2002	6,500	–	178,750	4-year cliff	August 31, 2006
2002	30,800	500	845,200	5-year cliff	June 20, 2007
2003	1,700	–	50,150	5-year cliff	January 8, 2008
2003	700	–	21,875	5-year cliff	July 17, 2008
2004	3,100	700	82,800	5-year cliff	December 16, 2009
2005	–	300	–	–	–
2006	–	700	–	–	–

The total fair value of the shares related to this plan that vested during 2006 was $475,100.

As of December 31, 2006, there was $118,064 of total unrecognized compensation costs related to nonvested, share-based compensation arrangements granted under this plan which is expected to be recognized over the weighted-average period of 0.62 years. The recognized compensation costs related to this plan during 2006, 2005, and 2004 were $220,020, $257,227, and $299,995, respectively.

13. Employee Benefit Program

The Corporation sponsors The National Bank of Indianapolis Corporation 401(k) Savings Plan (the 401(k) Plan) for the benefit of substantially all of the employees of the Corporation and its subsidiaries. All employees of the Corporation and its subsidiaries become participants in the 401(k) Plan after attaining age 21. The Corporation amended the plan January 1, 2006.

13. Employee Benefit Program (continued)

The Corporation expensed approximately $464,000, $264,000, and $201,000 for employee-matching contributions to the plan during 2006, 2005, and 2004, respectively. The Board of Directors of the Corporation may, in its discretion, make an additional matching contribution to the 401(k) Plan in such amount as the Board of Directors may determine. In addition, the Corporation may fund all, or any part of, its matching contributions with shares of its stock. The Corporation also may, in its discretion, make a profit-sharing contribution to the 401(k) Plan. No additional matching contributions or profit-sharing contributions have been made to the plan during 2006, 2005, or 2004.

An employee who has an interest in a qualified retirement plan with a former employee may transfer the eligible portion of that benefit into a rollover account in the 401(k) Plan. The participant may request that the trustee invests up to 50% of the fair market value of the participant's rollover contribution to a maximum of $200,000 (valued as of the effective date of the contribution to the 401(k) Plan) in whole and fractional shares of the common stock to the Corporation.

14. Dividend and Loan Limitation and Regulatory Capital Ratios

Dividends from the Bank to the Corporation may not exceed the undivided profits of the Bank for the current year (included in consolidated retained earnings) combined with the retained undivided profits for the previous two years without prior approval of a federal regulatory agency. In addition, federal banking laws limit the amount of loans the Bank may make to the Corporation, subject to certain collateral requirements. No loans were made during 2006 or 2005 by the Bank to the Corporation. The Bank declared and paid a $1,300,000 dividend to the Corporation during 2006 and 2005.

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 consolidated 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.

14. Dividend and Loan Limitation and Regulatory Capital Ratios (continued)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of total qualifying capital to total adjusted asset (as defined). Management believes, as of December 31, 2006 and 2005, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2006, the most recent notification from the Comptroller of the Currency 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 1 risk-based, and leveraged capital ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the institution's category.

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

	Actual		**For Capital Adequacy Purposes**		**To be Well Capitalized Under Prompt Corrective Action Provisions**	
As of December 31, 2006	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Tier 1 risk-based capital	**$71,317,878**	**9.0%**	**$31,725,806**	**4.0%**	**$47,588,709**	**6.0%**
Total risk-based capital	**84,830,976**	**10.7%**	**63,451,612**	**8.0%**	**79,314,515**	**10.0%**
Leveraged capital	**71,317,878**	**7.1%**	**40,433,310**	**4.0%**	**50,541,638**	**5.0%**
As of December 31, 2005						
Tier 1 risk-based capital	64,121,192	9.0%	28,491,721	4.0%	42,737,581	6.0%
Total risk-based capital	77,467,582	10.9%	56,983,441	8.0%	71,229,301	10.0%
Leveraged capital	64,121,192	6.8%	37,563,394	4.0%	46,954,242	5.0%

15. Related Parties

Certain directors and principal shareholders of the Corporation, including their families and companies in which they are principal owners, are loan customers of, and have other transactions with, the Corporation or its subsidiary in the ordinary course of business. The aggregate dollar amount of these loans was approximately $5,996,373 and $13,673,699 on December 31, 2006 and 2005, respectively. All of the loans made were on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with unrelated parties. The amounts do not include loans made in the ordinary course of business to companies in which officers or directors of the Corporation are either officers or directors, but are not principal owners, of such companies. During 2006, new loans to these parties amounted to $1,641,377, draws amounted to $16,310,590, and repayments amounted to $25,629,293.

16. Income Taxes

The Corporation applies a federal income tax rate of 34% and a state tax rate of 8.5% in the computation of tax expense or benefit. The provision for income taxes consisted of the following:

	2006	**2005**	**2004**
Current tax expense	**$3,749,202**	$4,300,157	$2,940,441
Deferred tax (benefit) expense	**(325,702)**	(421,841)	194,557
	$3,423,500	$3,878,316	$3,134,998

16. Income Taxes (continued)

The statutory tax rate reconciliation is as follows:

	2006	2005	2004
Income before provision for income tax	**$10,485,725**	$10,140,842	$8,816,047
Tax expense at federal statutory rate	**$ 3,565,147**	$ 3,447,886	$2,997,456
Increase (decrease) in taxes resulting from:			
State income taxes	**521,794**	524,884	454,644
Deferred compensation	**(67,405)**	(28,135)	(154,275)
Tax-exempt interest	**(522,521)**	(135,688)	(95,303)
Other	**(73,515)**	69,369	(67,524)
	$ 3,423,500	$ 3,878,316	$3,134,998
Effective tax rate	**32.65%**	38.24%	35.56%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets are recognized for the estimated tax effects attributable to deductible temporary differences and operating loss carryforwards, net of any valuation allowances for amounts which may not be realized by the Corporation.

16. Income Taxes (continued)

The components of the Corporation's net deferred tax assets in the consolidated balance sheets as of December 31 are as follows:

	2006	2005
Deferred tax assets:		
Allowance for loan losses	**$3,372,038**	$3,306,005
Other	**1,551,002**	1,785,184
Total deferred tax assets	**4,923,040**	5,091,189
Deferred tax liability:		
Mortgage servicing rights	**(525,467)**	(515,063)
Total deferred tax liabilities	**(525,467)**	(515,063)
Net deferred tax assets	**$4,397,573**	$4,576,126

17. Commitments and Contingencies

A summary of the contractual amount of commitments to extend credit is as follows:

	2006	2005
Commercial credit lines	**$201,846,125**	$167,641,092
Revolving home equity and credit card lines	**91,072,318**	85,400,798
Standby letters of credit	**13,556,888**	10,867,093
Other loans	**2,382,635**	2,860,892
	$308,857,966	$266,769,875

Commitments to extend credit are agreements to lend. Since many of the commitments to extend credit may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash-flow requirements.

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party.

17. Commitments and Contingencies (continued)

The credit risk associated with loan commitments and standby letters of credit is essentially the same as that involved in extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's credit assessment of the customer.

The Corporation is party to various lawsuits and proceedings arising in the ordinary course of business. In addition, many of these proceedings are pending in jurisdictions that permit damage awards disproportionate to the actual economic damages alleged to have been incurred. Based upon information presently available, we believe that the total amounts, if any, that will ultimately be paid arising from these lawsuits and proceedings will not have a material adverse effect on our consolidated results of operations or financial position.

18. Fair Value of Financial Instruments

FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments* (FASB No. 107), requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. FASB No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Corporation.

The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments:

Cash and short-term investments: The carrying amounts reported in the consolidated balance sheets for cash and short-term investments approximate those assets' fair values due to the short maturity of those assets.

Investment securities (including collateralized mortgage obligations): Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

18. Fair Value of Financial Instruments (continued)

Loans receivable: For variable-rate loans that re-price frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for all other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The carrying amount of accrued interest approximates its fair value.

Federal Reserve and FHLB Stock: Fair value is determined to be equal to the carrying amount as there is no readily determinable market value available for these securities.

Deposits: The fair values disclosed for demand deposits, including interest-bearing and non-interest bearing accounts, passbook savings, and certain types of money market accounts are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Security repurchase agreements: The carrying amounts of borrowings under repurchase agreements approximate their fair values due to variable interest rates.

FHLB advances: The fair value of FHLB advances are based upon discounted cash flows using rates for similar advances with the same maturities.

Subordinated debt: The carrying amounts of borrowings under subordinated debt approximate their fair values due to variable interest rates.

Junior subordinated debt: The fair value of the preferred capital securities are based upon discounted cash flows using rates for similar securities with the same maturities.

Interest rate swap: Fair values for derivative instruments are based on cash flow projection models acquired from third parties.

Off-balance-sheet instruments: Loan commitments and standby letters of credit had an immaterial estimated fair value at December 31, 2006 and 2005. As of December 31, 2006 and 2005, the loan commitments had a notional amount of $295,301,078 and $255,902,782, respectively. The standby letters of credit had a notional amount of $13,556,888 and 10,867,093 as of December 31, 2006 and 2005, respectively.

18. Fair Value of Financial Instruments (continued)

The estimated fair values of the Corporation's financial instruments at December 31 are as follows:

	2006		2005	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Assets				
Cash and due from banks	**$71,227,890**	**$71,227,890**	$32,223,665	$32,223,665
Federal funds sold	**39,648,321**	**39,648,321**	33,214,446	33,214,446
Reverse repurchase agreements	**1,000,000**	**1,000,000**	5,000,000	5,000,000
Investment securities available-for-sale	**60,790,222**	**60,790,222**	70,002,125	70,002,125
Investment securities held-to-maturity	**86,197,233**	**85,279,591**	83,732,666	82,066,056
Net loans	**736,024,836**	**731,243,332**	676,141,412	669,912,825
Federal Reserve and FHLB stock	**3,149,900**	**3,149,900**	3,735,800	3,735,800
Liabilities				
Deposits	**875,083,633**	**872,555,051**	774,315,715	772,895,870
Security repurchase agreements	**59,133,328**	**59,133,328**	53,556,402	53,556,402
FHLB advances	**14,000,000**	**13,973,879**	24,000,000	24,020,353
Subordinated debt	**5,000,000**	**5,000,000**	5,000,000	5,000,000
Junior subordinated debentures	**13,918,000**	**17,223,525**	13,918,000	17,464,789
Interest rate swap	**160,795**	**160,795**	536,902	536,902

19. Shareholders' Equity

The following is a summary of activity in accumulated other comprehensive income:

	2006	2005	2004
Accumulated unrealized gains (losses) on securities available-for-sale at January 1, net of tax	**$ (922,349)**	$ (401,367)	$ 11,078
Net unrealized gains (losses) for period	**805,547**	(862,696)	(599,230)
Tax benefit (expense)	**(319,077)**	341,714	237,355
Reclassification adjustment of losses included in net income	–	–	(83,739)
Tax benefit	–	–	33,169
Ending other comprehensive losses at December 31, net of tax	**$ (435,879)**	$ (922,349)	$ (401,367)
Accumulated unrealized losses on swap at January 1, net of tax	**$ (324,235)**	$ (228,156)	$ –
Net unrealized gains (losses) for period	**376,107**	(159,098)	(377,804)
Tax benefit (expense)	**(148,976)**	63,019	149,648
Ending other comprehensive losses at December 31, net of tax	**$ (97,104)**	$ (324,235)	$ (228,156)
Accumulated other comprehensive income gains (losses) at January 1, net of tax	**$ (1,246,584)**	$ (629,523)	$ 11,078
Other comprehensive gains (losses), net of tax	**713,601**	(617,061)	(640,601)
Accumulated other comprehensive losses at December 31, net of tax	**$ (532,983)**	$ (1,246,584)	$ (629,523)

20. Earnings Per Share

Basic net income per common share is computed by dividing net income applicable to common stock by the weighted-average number of shares of common stock outstanding during the period. Diluted net income per common share is computed by dividing net income applicable to common stock by the weighted-average number of shares, nonvested stock, and dilutive common stock equivalents outstanding during the period. Common stock equivalents consist of common stock issuable under the assumed exercise of warrants and stock options granted under the Corporation's stock plans, using the treasury stock method. A computation of earnings per share follows:

	2006	**2005**	**2004**
Basic EPS Calculation			
Basic average shares outstanding	**2,301,983**	2,298,593	2,302,522
Net income	**$7,062,225**	$6,262,526	$5,681,049
Basic earnings per common share	**$3.07**	$2.72	$2.47
Diluted EPS Calculation			
Average shares outstanding	**2,301,983**	2,298,593	2,302,522
Nonvested restricted stock	**25,903**	26,820	30,206
Net effect of the assumed exercise of stock options	**78,098**	62,025	61,643
Diluted average shares	**2,405,984**	2,387,438	2,394,371
Net income	**$7,062,225**	$6,262,526	$5,681,049
Diluted earnings per common share	**$2.94**	$2.62	$2.37

21. Parent Company Financial Statements

The condensed financial statements of the Corporation, prepared on a parent company unconsolidated basis, are presented as follows:

Balance Sheet

	December 31	
	2006	**2005**
Assets		
Cash	**$ 1,708,579**	$ 1,871,388
Investment in subsidiary	**70,917,555**	63,004,642
Other assets	**1,565,389**	1,350,305
Total assets	**$ 74,191,523**	$ 66,226,335
Liabilities and shareholders' equity		
Other liabilities	**$ 488,692**	$ 725,813
Junior subordinated debentures owed to unconsolidated subsidiary trust	**13,918,000**	13,918,000
Total liabilities	**14,406,692**	14,643,813
Shareholders' equity	**59,784,831**	51,582,522
Total liabilities and shareholders' equity	**$ 74,191,523**	$ 66,226,335

21. Parent Company Financial Statements (continued)

Statements of Income

	Year Ended December 31		
	2006	**2005**	**2004**
Interest income	**$ 42,953**	$ 32,879	$ 26,579
Interest expense	**1,487,982**	1,487,982	1,488,053
Net interest income	**(1,445,029)**	(1,455,103)	(1,461,474)
Other income	**44,308**	44,308	44,308
Dividend income from subsidiary	**1,300,000**	1,300,000	1,000,000
Other operating expenses:			
Compensation expense related to restricted stock and options	**771,177**	–	–
Unearned compensation amortization	**–**	257,227	299,995
Other expenses	**317,559**	334,703	306,430
Total other operating expenses	**1,088,736**	591,930	606,425
Net loss before tax benefit and equity in undistributed net income of subsidiary	**(1,189,457)**	(702,725)	(1,023,591)
Tax benefit	**1,052,370**	814,187	949,289
Net loss before equity in undistributed net income of subsidiary	**(137,087)**	111,462	(74,302)
Equity in undistributed net income of subsidiary	**7,199,312**	6,151,064	5,755,351
Net income	**$ 7,062,225**	$ 6,262,526	$ 5,681,049

21. Parent Company Financial Statements (continued)

Statements of Cash Flows

	Year Ended December 31		
	2006	**2005**	**2004**
Operating activities			
Net income	**$7,062,225**	$6,262,526	$5,681,049
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Undistributed net income of subsidiary	**(7,199,312)**	(6,151,064)	(5,755,351)
Income tax benefit from exercise of options (APB 25)	**–**	172,650	817,610
Stock compensation	**99,786**	99,793	99,990
Unearned compensation amortization	**–**	257,227	299,995
Compensation expense related to restricted stock and options	**771,177**	–	–
(Increase) decrease in other assets	**(215,084)**	(53,361)	830
Increase (decrease) in other liabilities	**(237,121)**	(29,410)	113,087
Net cash provided by (used in) operating activities	**281,671**	558,361	1,257,210
Investing activities			
Net cash provided by investing activities	–	–	–
Financing activities			
Proceeds from issuance of stock	**1,010,064**	556,922	1,386,574
Repurchase of stock	**(1,936,368)**	(1,693,222)	(3,779,334)
Income tax benefit from exercise of options (FASB No. 123(R))	**481,824**	–	–
Net cash used in financing activities	**(444,480)**	(1,136,300)	(2,392,760)
Decrease in cash and cash equivalents	**(162,809)**	(577,939)	(1,135,550)
Cash and cash equivalents at beginning of year	**1,871,388**	2,449,327	3,584,877
Cash and cash equivalents at end of year	**$1,708,579**	$1,871,388	$2,449,327

22. Quarterly Results of Operations (Unaudited)

The following is a summary of the unaudited quarterly results of operations for the years ended December 31, 2006 and 2005:

	March 31	June 30	September 30	December 31
2006				
Interest income	**$ 14,147,249**	**$ 14,950,359**	**$ 15,995,312**	**$ 16,282,291**
Interest expense	**6,535,800**	**6,995,692**	**7,827,143**	**8,205,883**
Net interest income	**7,611,449**	**7,954,667**	**8,168,169**	**8,076,408**
Provision for loan losses	**411,000**	**225,000**	**225,000**	**225,000**
Other operating income	**1,888,115**	**2,103,080**	**2,095,903**	**2,272,428**
Other operating expense	**6,784,720**	**7,018,275**	**7,476,479**	**7,319,020**
Net income before tax	**2,303,844**	**2,814,472**	**2,562,593**	**2,804,816**
Federal and state income tax	**773,110**	**944,053**	**781,139**	**925,198**
Net income after tax	**$ 1,530,734**	**$ 1,870,419**	**$ 1,781,454**	**$ 1,879,618**
Basic earnings per share	**$ 0.67**	**$ 0.81**	**$ 0.77**	**$ 0.82**
Diluted earnings per share	**$ 0.64**	**$ 0.78**	**$ 0.74**	**$ 0.78**
2005				
Interest income	$ 11,257,015	$ 12,360,413	$ 13,429,898	$ 13,799,781
Interest expense	4,244,692	5,086,617	5,572,173	6,002,333
Net interest income	7,012,323	7,273,796	7,857,725	7,797,448
Provision for loan losses	425,000	495,000	565,000	600,000
Other operating income	1,750,239	1,739,258	1,973,855	1,997,521
Other operating expense	6,044,088	6,062,070	6,542,617	6,527,548
Net income before tax	2,293,474	2,455,984	2,723,963	2,667,421
Federal and state income tax	864,141	967,939	1,058,942	987,294
Net income after tax	$ 1,429,333	$ 1,488,045	$ 1,665,021	$ 1,680,127
Basic earnings per share	$ 0.62	$ 0.65	$ 0.72	$ 0.73
Diluted earnings per share	$ 0.60	$ 0.62	$ 0.70	$ 0.70

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. The Corporation's principal executive officer and principal financial officer have concluded that the Corporation's disclosure controls and procedures (as defined under Rules 13(a)-15(e) or Rules 15d-15(e) under the Securities Exchange Act of 1934, as amended), based on their evaluation of these controls and procedures as of the period covered by this Form 10-K, are effective.

(b) Changes in Internal Controls. There has been no change in the Corporation's internal controls over financial reporting that has occurred during the Corporation's last fiscal quarter that has materially affected or is reasonable likely to materially affect, the Corporation's internal control over financial reporting.

The Corporation's management, including its principal executive officer and principal financial officer, does not expect that the Corporation's disclosure controls and procedures and other internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can only be reasonable assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Appearing immediately following the Signatures section of this report there are Certifications of the Corporation's principal executive officer and principal financial officer. The Certifications are required in accord with Section 302 of the Sarbanes-Oxley Act of 2002 (the "Section 302 Certifications"). This Item of this report which you are currently reading is the information concerning the Evaluation referred to in the Section 302 Certifications and this information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

Item 9B. Other Information

Not Applicable

PART III

Items 10. 11, 12, 13 and 14

In accordance with the provisions of General Instruction G to Form 10-K, the information required for the required disclosures under Items 10, 11, 12, 13 and 14 are not set forth herein because the Corporation intends to file with the Securities and Exchange Commission a definitive Proxy Statement pursuant to Regulation 14A not later than 120 days following the end of its 2006 fiscal year, which Proxy Statement will contain such information. The information required by Items 10, 11, 12, 13 and 14 is incorporated herein by reference to such Proxy Statement.

Part IV

Item 15. Exhibits and Financial Statement Schedules

(a) (1) The following consolidated financial statements are included in Item 8:

	Page Number in 10-K
Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements	50
Consolidated Balance Sheets December 31, 2006 and 2005	51
Consolidated Statements of Income For the years ended December 31, 2006, 2005 and 2004	52
Consolidated Statements of Shareholders' Equity For the years ended December 31, 2006, 2005 and 2004	53
Consolidated Statements of Cash Flows For the years ended December 31, 2006, 2005, and 2004	54
Notes to consolidated Financial Statements	55

(2) See response to Item 15 (a)(1). All other financial statement schedules have been omitted because they are not applicable, or the required information is shown in the consolidated financial statements or notes thereto.

(3) List of Exhibits

EXHIBIT INDEX

3.01 Articles of Incorporation of the Corporation, filed as Exhibit 3(i) to the Corporation's Form 10-QSB as of September 30, 1995 are incorporated by reference and Articles of Amendment filed as Exhibit 3(i) to the Form 10-K for the fiscal year ended December 31, 2001

3.02 Bylaws of the Corporation, filed as Exhibit 3(ii) to the Corporation's Form 10-Q as of September 30, 1996 are incorporated by reference

10.01* 1993 Key Employees' Stock Option Plan of the Corporation, as amended, filed as Exhibit 10(a) to the Form 10-K for the fiscal year ended December 31, 2004 is incorporated by reference

10.02* 1993 Directors' Stock Option Plan of the Corporation, as amended, filed as Exhibit 10(b) to the Corporation's Form 10-Q as of June 30, 2001 is incorporated by reference

10.03* 1993 Restricted Stock Plan of the Corporation, as amended, filed as Exhibit 10(c) to the Form 10-K for the fiscal year ended December 31, 2004 is incorporated by reference

10.04* Form of agreement under the 1993 Key Employees Stock Option Plan, filed as Exhibit 10(d) to the Form 10-K for the fiscal year ended December 31, 2004 is incorporated by reference

10.05* Form of agreement under the 1993 Restricted Stock Plan, filed as Exhibit 10(e) to the Form 10-K for the fiscal year ended December 31, 2004 is incorporated by reference

10.06* Schedule of Directors Compensation Arrangements, filed as Exhibit 10(f) to the Form 10-K for the fiscal year ended December 31, 2004 is incorporated by reference

10.07* Schedule of Named Executive Officers Compensation Arrangements, filed as Exhibit 10.07 to the Corporation’s Form 8-K dated May 18, 2006 is incorporated by reference. As filed in the Corporation’s 8-K dated January 9, 2007 is incorporated by reference.

10.08* The National Bank of Indianapolis Corporation 2005 Equity Incentive Plan, filed as Exhibit 10.01 to the Corporation's Form 8-K dated June 22, 2005 is incorporated by reference

10.09* Form of Restricted Stock Award Agreement for The National Bank of Indianapolis Corporation 2005 Equity Incentive Plan, filed as Exhibit 10.02 to the Corporation's Form 8-K dated June 22, 2005 is incorporated by reference

10.10* Form of Stock Option Award Agreement for The National Bank of Indianapolis Corporation 2005 Equity Incentive Plan, filed as Exhibit 10.03 to the Corporation's Form 8-K dated June 22, 2005 is incorporated by reference

10.11* Employment Agreement dated December 15, 2005 between Morris L. Maurer and the Corporation, filed as Exhibit 10.06 to the Corporation’s Form 8-K dated December 21, 2005 is incorporated by reference

10.12* Employment Agreement dated December 15, 2005 between Philip B. Roby and the Corporation, filed as Exhibit 10.07 to the Corporation’s Form 8-K dated December 21, 2005 is incorporated by reference

10.13* The National Bank of Indianapolis Corporation Executive’s Deferred Compensation Plan, filed as Exhibit 10.08 to the Corporation’s Form 8-K dated December 21, 2005 is incorporated by reference

10.14* The National Bank of Indianapolis Corporation 401(K) Savings Plan (as amended and restated generally effective January 1, 2006), filed as Exhibit 10.14 to the Corporation’s Form 10-K dated December 31, 2005 is incorporated by reference

21.00 Subsidiaries of The National Bank of Indianapolis Corporation

31.1 Certificate of Chief Executive Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended

31.2 Certificate of Chief Financial Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended

32.1 Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350

32.2 Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350

Signatures

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) The National Bank of Indianapolis Corporation

By (Signature and Title) /S/ Morris L. Maurer March 23, 2007

Morris L. Maurer, President (Principal Executive Officer) Date

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)	/S/ Morris L. Maurer	March 23, 2007
	Morris L. Maurer, President (Principal Executive Officer)	Date
By (Signature and Title)	/S/ Philip B. Roby	March 23, 2007
	Philip B. Roby, Executive Vice President	Date
By (Signature and Title)	/S/ Debra L. Ross	March 23, 2007
	Debra L. Ross, Senior Vice President (Principal Financial and Accounting Officer)	Date
By (Signature and Title)	/S/ Michael S. Maurer	March 23, 2007
	Michael S. Maurer, Chairman of the Board	Date
By (Signature and Title)	/S/ Kathryn G. Betley	March 23, 2007
	Kathryn G. Betley, Director	Date
By (Signature and Title)	/S/ David R. Frick	March 23, 2007
	David R. Frick, Director	Date
By (Signature and Title)	/S/ Andre B. Lacy	March 23, 2007
	Andre B. Lacy, Director	Date
By (Signature and Title)	/S/ William S. Oesterle	March 23, 2007
	William S Oesterle, Director	Date
By (Signature and Title)	/S/ Todd H. Stuart	March 23, 2007
	Todd H. Stuart, Director	Date
By (Signature and Title)	/S/ John T. Thompson	March 23, 2007
	John T. Thompson, Director	Date

Exhibit 31.1

C E R T I F I C A T I O N

I, Morris L. Maurer, certify that:

1. I have reviewed this annual report on Form 10-K of The National Bank of Indianapolis Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 23, 2007

/s/ Morris L. Maurer
Morris L. Maurer, President and Chief Executive Officer

Exhibit 31.2

C E R T I F I C A T I O N

I, Debra L. Ross, certify that:

1. I have reviewed this annual report on Form 10-K of The National Bank of Indianapolis Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 23, 2007

/s/ Debra L. Ross
Debra L. Ross, Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of The National Bank of Indianapolis Corporation (the "Company") on Form 10-K for the period ending December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Morris L. Maurer, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Morris L. Maurer
Morris L. Maurer
Chief Executive Officer
March 23, 2007

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and not for any other purpose, and is subject to the knowledge standard contained in 18 U.S.C. Section 1350.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of The National Bank of Indianapolis Corporation (the "Company") on Form 10-K for the period ending December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Debra L. Ross, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Debra L. Ross
Debra L. Ross
Chief Financial Officer
March 23, 2007

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and not for any other purpose, and is subject to the knowledge standard contained in 18 U.S.C. Section 1350.