BUSINESS BANCSHARES, INC.

Report to Shareholders

December 31, 2008

Letter from Management



Mark Twain once said, "History doesn't repeat itself – at best it sometimes rhymes." Whether or not current economic woes will be comparable to those experienced in the late 1980's and early 1990's is yet to be determined. Hopefully, federal regulations enacted after that crisis and current governmental interaction will stave off some of the most severe consequences of that time. Regardless, the affect of current economic conditions on financial institutions is dramatic. Over the last year, the average bank in the United States has suffered significant deterioration in asset quality, and measurements of capital and profitability show further signs of trouble.

In 2008, the industry's earnings declined year over year by almost eighty-four percent. Financial institutions, as a group, experienced the lowest annual earnings since 1990, and the combined return on assets was the lowest since 1987. Almost one in four banks was unprofitable in 2008, and almost two out of every three reported lower earnings than in 2007. As you might expect, the profitability of Business Bancshares, Inc., has also been severely hampered by the weakened economy, but results for 2008 are promising. After recognizing significant

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Thomas O'Meara Named New Bank Board Chairman



We are excited to announce that Mr. Thomas E. O'Meara was recently elected Chairman of The Business Bank of St. Louis Board of Directors. His appointment occurred at our February 17th Board of Directors meeting. Mr. O'Meara is preceded by Mr. Edward Throop, who will continue to serve as the Chairman of Business Bancshares, Inc.

Mr. O'Meara is a Partner and member of the Board of Directors of Moneta Group, LLC. He has held senior leadership positions there for more than 20 years and has been an integral part of that firm's nationally recognized financial management performance. Moneta Group is a financial services firm providing Family CFO services to successful families in St. Louis and throughout the United States. Mr. O'Meara began his professional career in

banking and was previously a senior executive at the former Centerre Bank, with responsibility for commercial lending and other key areas of that bank's operations.

Mr. O'Meara, as chairman of The Business Bank board, will concentrate on the Bank's performance while the holding company board will be more focused on capital and strategic issues. "I am confident that Tom will be able to lead the Bank through these tough economic times and have a positive effect on the direction of the Bank, while giving the Board a fresh perspective," commented Mr. Throop. "I will be able to focus on managing the holding company while bestowing the Bank board business to very capable hands," he added.

Mr. Throop has an extensive background in construction, real estate development and banking. He has served as the Chairman of The Business Bank of St. Louis since its inception in 2002, and as the Chairman of Business Bancshares, Inc. since its formation in 2003.

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Board of Directors

Thomas E. O'Meara, Chairman Edward Throop, Holding Co. Chairman David J. Mishler, Vice-Chairman Andrew J. Brown Michael Flavin Cottrell Fox

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Eugene Harris

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J. Gregory Keller

Thomas W. McCarthy III

Stephen J. Randazzo

H. Meade Summers, III

Charles Thal

Helmut Weber

Bank Officers

David J. Mishler, Chief Executive Officer Michael Flavin, President Stan Cornish, Chief Operating Officer David Gamache, General Counsel and Secretary to the Board

Jon Hustedt, Chief Lending Officer Brian Leeker, Chief Financial Officer

Senior Vice Presidents

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Herb Hitchings

Larry Kirby

Tim Main B.J. McSorley

Todd Meier

Laurie Pennycook

Paul Rhea

Vice Presidents

David Bealke

Joe Bean

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Connie Hornak

Robert Heyder

Debbie Keating

Doug Look

Kim Manoogian

Tamara Reed

Jennifer Seitz

Jason Spore

Drew Steele

Ruth Stone

Mark Zaiac

Associate Board

Milton Cornwell

Michael Kaemmerer

Greg Miller

David Neiers

John Riffle

Bob Schaefer

John Siefert

Richard Steinbaum

Brick P. Storts IV

Andrew Thome

Leonard Toenjes
Dan Wagner

Dan wagner

Michael Whalen

Jennifer Seitz Joins The Business Bank

Jennifer Seitz joined the Bank in late 2008 as Vice President, primarily responsible for business development. Ms. Seitz comes to The Business Bank from National City Bank, where she was Vice President and Branch Manager in Chesterfield. Jennifer holds a Bachelor of Science in Finance and a General Business degree from Missouri State University.

Jennifer Seitz joins our Private Banking team of David Bealke, Kim Manoogian, Tamara Reed and Ruth Stone who, under the direction of Paul Rhea, are focused on strengthening and expanding our core deposits.



BBSTL Workshop Series off to a Successful Start

The Business Bank of St. Louis hit the ground running with a new event marketing strategy for 2009. The Bank's new strategy will put a much stronger emphasis on events of a professional and educational nature. "In a weakened economy, more so than ever, it is important for us to provide clients with resources to support the strengthening of their businesses," stated Mike Flavin, President of The Business Bank of St. Louis.

The BBSTL Workshop Series features a monthly guest speaker and covers a variety of topics geared toward the Bank's clients, prospective clients and referral sources. The first event was held in February and featured our own Mike Flavin who updated the group on the State of the Banking Industry. The second event was entitled 2009 New Homes Forecast & Market Demographics. We were fortunate to have Joe Zanola of Zanola Company, LLC share his knowledge and insight of the St. Louis market and trends along with important market statistics with the group. Both of the events had good attendance and received positive feedback from the attendees.

For a schedule of all 2009 BBSTL Workshop Series Events, please contact Pam Rice, AVP – Marketing at (314) 556-6617 or price@bbstl.com.

(Letter from Management continued)

loan problems in 2007 and posting an annual net loss of \$1.2 million, the Company experienced far fewer charge-offs in 2008, and despite a fourth quarter loss, earned approximately \$131,000 for the year. Admittedly, it was not a very good year under normal circumstances but nevertheless a major improvement over last year. Of course, we continue to look for ways to increase net earnings. Management has carefully reevaluated the rationale for non-essential expenditures and significantly improved the 2009 forecast by way of planned cost reductions.

The primary reason for most of the recent earnings problems is poor asset quality. Perhaps one of the most telling signs of the overall health of our nation's financial institutions is the rate at which past due and nonperforming loans have risen. Industry-wide, the percentage of credits in trouble or showing signs of trouble rose by approximately forty-three percent in the fourth quarter of 2008, and at year end, those credits comprised about three percent of all loans extended by insured financial institutions. However, while the industry's average ratio rose dramatically in each quarter of 2008, the ratio at the Business Bank of St. Louis peeked in June of 2008 and improved each quarter thereafter.

While past due and nonperforming loan ratios have recently declined and profitability has improved relative to 2007, asset growth in the second half of 2008 stressed capital levels. During the year, capital raised through the exercise of stock warrants totaled approximately \$3.3 million, but lackluster earnings provided little additional capital support. Efforts are currently underway to generate more capital, but current economic conditions may make it difficult to attract investors. We hope to have a positive report on our capital efforts in the next Report to Shareholders.

Undoubtedly, these are difficult times for almost every industry but financial institutions have been particularly troubled by recent developments and will likely continue to struggle until general economic conditions improve. In times like these, your trust and ongoing support are more important than ever before.

David J. Mishler

Vice Chairman and Chief Executive Officer, Business Bancshares, Inc.

Michael A. Flavin

President, The Business Bank of St. Louis

The Quarter in Review

Total assets as of December 31, 2008 were \$537 million, an increase of \$59 million when compared to December 31, 2007. During the same twelve month period, loans grew by \$60 million. Shareholders' equity is \$40 million, up \$4 million as compared to the same time last year. Capital ratios remain above the "well-capitalized" thresholds. Nonperforming assets as a percentage of total assets is 2.35%, up from 1.90%, twelve months earlier.

The Company posted net income of \$131,000 for the twelve month period ending December 31, 2008 and a net loss of \$1.4 million during the fourth quarter of 2008. Return on average assets was 0.03% and return on average equity was 0.34% for the year.

Financial Highlights

| | 12/31/08 | 12/31/07 |
|---|---------------|----------------------------|
| Balance Sheet Data | | |
| Total Assets | \$537,350,000 | \$478,501,000 |
| Net Loans | 484,311,000 | 424,716,000 |
| Total Deposits | 442,894,000 | 426,115,000 |
| Shareholders' Equity | 40,249,000 | 36,213,000 |
| Book Value Per Share | \$18.96 | \$19.17 |
| Shares Issued and Outstanding | 2,123,414 | 1,889,492 |
| Capital Ratios (The Business Bank of St. Louis) | | |
| Tier 1 Risk-based Capital | 9.49% | 10.07% |
| Tier 2 Risk-based Capital | 10.75% | 11.33% |
| Leverage Ratio | 9.09% | 9.05% |
| Asset Quality | | |
| Nonperforming Loans to Total Loans | 2.49% | 1.63% |
| Nonperforming Assets to Total Assets | 2.35% | 1.90% |
| | | |
| | Quarter Ended | Twelve Months Ended |
| | 12/31/08 | 12/31/08 |
| Net Earnings | (\$1,373,000) | \$131,000 |
| Diluted Earnings Per Share (EPS) | (\$0.65) | \$0.06 |
| Performance Ratios | | |
| Return on Average Assets | (1.03%) | 0.03% |
| Return on Average Equity | (13.46%) | 0.34% |
| Net Interest Margin | 2.98% | 2.97% |
| Efficiency Ratio | 66.18% | 64.17% |



Providing financial services through The Business Bank of St. Louis.

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BRIEFLY NOTED

Save the Date!

Our Annual Shareholder Meeting will be held on Tuesday, April 21, 2009 from 4:00pm – 5:30pm. The meeting will be held at The Crowne Plaza in Clayton. If you haven't already received your proxy materials, you will shortly.

Holiday Giving

This year, the Bank staff participated in the Adopt-A-Family program for the holidays. Our adopted family consisted of a single mother and her three young daughters. The staff really chipped in this year, despite, and perhaps as a result of, the current economic climate. Collectively, we were able to provide the family with an incredible amount of everyday essentials and a fair amount of their wish list items. The mother was very thankful and appreciative. We received a thank you letter from her along with photos of her daughters visiting Santa.

Many of the Bank employees and their families also wrote letters and cards for the soldiers overseas. It was heartwarming to take the opportunity to recognize their sacrifices for our country, and send them our warm wishes during their lonely holiday season.

Fulcrum Securities

Stock transactions for Business Bancshares, Inc. are facilitated by Fulcrum Securities. You can contact them by calling (314) 336-3140.