



INDEPENDENT ALLIANCE BANKS

118 East Ludwig Road
Fort Wayne, IN 46825

FOR IMMEDIATE RELEASE

INDEPENDENT ALLIANCE BANKS ANNOUNCES FIRST QUARTER FINANCIAL PERFORMANCE

FORT WAYNE, IND., April 20, 2017 – Independent Alliance Banks, Inc. (OTCQX: IALB), the holding company of iAB Financial Bank, announced financial performance as of March 31, 2017.

Net income for the first three months of 2017 was \$1.9 million, a 23 percent decline from first quarter of 2016 earnings of \$2.5 million, primarily due to approximately \$570 thousand after-tax expenses associated with our pending merger with First Merchants Corporation (Nasdaq: FRME). Earnings per share were \$.47 for the first quarter of 2017, compared to \$.60 during the same period in 2016. Return on average assets was .72 percent and return on average equity was 6.29 percent for the first quarter of 2017.

Highlights:

- Closing market price at the March quarter end was up to \$63.74 or 136 percent from 2016.
- Assets increased to \$1.08 billion during the first quarter compared to \$1.06 in 2016.
- Loans increased to \$746 million, or 4 percent from the end of March 2016.
- Deposits increased 4 percent to \$863 million compared to \$831 million during the same period in 2016
- First quarter 2017 non-performing loans experienced a positive decline to \$4.8 million, compared to \$5.2 million during first quarter 2016.

“As you may know, our Company announced the signing of a definitive agreement with First Merchants Corporation in February of this year,” stated Michael C. Marhenke, President and Chief Executive Officer of IAB. “We are excited about the business growth potential and momentum from the new and enhanced services that we will be able to offer our customers with our First Merchants partnership. We remain focused on servicing the needs of our customers as well as contributing talent and resources to the economic well-being of our local communities.”

Independent Alliance Banks, Inc., established in 2005, is a financial services holding company for iAB Financial Bank. iAB Financial Bank, one of the largest locally-owned community banks in the area, employs approximately 265 people throughout Allen, Huntington, Marshall and Wells counties.

For more information contact Karen Cameron at 260-469-6284 or karen.cameron@iabfinancial.com

Consolidated Balance Sheets

At March 31, 2017 and December 31, 2016

(unaudited)

	March 31, 2017	December 31, 2016
ASSETS		
Cash & due from banks		
Noninterest bearing	\$ 6,518,892	\$ 7,681,393
Interest-bearing	47,729,364	42,256,846
Total cash and cash equivalents	54,248,256	49,938,239
Certificates of deposit	8,803,650	9,298,816
Available-for-sale investment securities	214,319,336	212,504,653
Loans held for sale	1,000,491	2,044,405
Loans	745,499,957	753,438,636
Allowance for loan losses	(10,625,773)	(10,390,397)
Loans, net	734,874,184	743,048,239
Buildings and equipment (net)	11,730,963	11,983,661
Federal Home Loan Bank stock	4,810,000	4,810,000
Insurance contracts	26,778,465	26,574,465
Goodwill and core deposit intangible	15,068,228	15,081,938
Other assets	10,679,587	12,325,272
Total assets	<u>\$ 1,082,313,160</u>	<u>\$ 1,087,609,688</u>
LIABILITIES		
Deposits		
Noninterest bearing	\$ 245,129,635	\$ 239,659,817
Interest bearing	618,248,684	621,336,806
Total deposits	863,378,319	860,996,623
Short-term borrowings	7,677,069	16,882,639
FHLB advances	68,000,000	68,000,000
Junior subordinated debt	10,310,000	10,310,000
Other liabilities	8,734,976	9,274,845
Total liabilities	958,100,364	965,464,107
STOCKHOLDERS' EQUITY		
Common stock and surplus	37,930,950	37,889,850
Retained earnings	95,543,649	94,532,607
Treasury stock	(9,744,615)	(9,744,615)
Accumulated other comprehensive income, net of tax	482,812	(532,261)
Total stockholders' equity	124,212,796	122,145,581
Total liabilities and stockholders' equity	<u>\$ 1,082,313,160</u>	<u>\$ 1,087,609,688</u>

Consolidated Statements of OperationsFor the three months ended March 31, 2017 and 2016
(unaudited)

	Three Months Ended March 31,	
	2017	2016
Interest Income:		
Loans	\$ 7,765,598	\$ 7,629,784
Investment securities:		
Taxable	456,484	494,876
Tax exempt	690,121	759,692
Dividend income and other	155,581	128,540
Total interest income	9,067,784	9,012,892
Interest Expense:		
Deposits	636,453	581,488
Short-term borrowings	7,033	7,681
FHLB advances	254,299	381,265
Junior subordinated debt	93,615	83,151
Total interest expense	991,400	1,053,585
Net interest income	8,076,384	7,959,307
Provision for Loan Losses	225,000	200,000
Net Interest Income after Provision for Loan Losses	7,851,384	7,759,307
Other Income:		
Service charges on deposit accounts	443,736	428,009
Service charges on loans	104,638	395,763
Income from sale of loans	312,163	189,437
Fiduciary and other nontraditional activities	643,918	479,690
Net realized gains (losses) on sale of assets	33,346	-
Income from life insurance contracts	204,000	204,000
Other	429,844	398,946
Total other income	2,171,645	2,095,845
Other Expenses:		
Salaries and employee benefits	4,281,902	4,030,596
Net occupancy and equipment	908,949	894,156
Printing and office supplies	138,070	177,521
Legal, professional and other fees	1,407,334	728,437
Marketing	178,282	52,314
Business development	180,150	173,950
FDIC insurance	89,443	165,026
Other	502,486	559,226
Total other expenses	7,686,616	6,781,226
Income Before Income Taxes	2,336,413	3,073,926
Income Taxes	427,226	606,611
Net Income	\$ 1,909,187	\$ 2,467,315
Earnings Per Common Share	\$ 0.47	\$ 0.60
Average common shares outstanding	4,081,404	4,086,704

Consolidated Financial Highlights

First Quarter 2017

(unaudited)

	Quarterly				Year-To-Date		
	1st Qtr 2017	4th Qtr 2016	3rd Qtr 2016	2nd Qtr 2016	1st Qtr 2016	3 mo 2017	3 mo 2016
<i>(\$ in thousands except for share data)</i>							
\$ EARNINGS							
Net interest income	\$ 8,076	8,048	8,027	8,012	7,959	8,076	7,959
Provision for loan loss	\$ 225	133	266	200	200	225	200
Other income	\$ 2,172	2,558	2,626	2,488	2,096	2,172	2,096
Other expense	\$ 7,687	7,225	7,163	7,105	6,781	7,687	6,781
Pretax income	\$ 2,336	3,248	3,224	3,195	3,074	2,336	3,074
Taxes	\$ 427	658	659	629	607	427	607
Net income	\$ 1,909	2,590	2,565	2,566	2,467	1,909	2,467
Earnings per share	\$ 0.47	0.63	0.63	0.63	0.60	0.47	0.60
PERFORMANCE RATIOS							
Return on average assets *	0.72%	0.92%	0.94%	0.95%	0.94%	0.72%	0.94%
Return on average equity *	6.29%	8.35%	8.26%	8.51%	8.30%	6.29%	8.30%
Net interest margin (fully-tax equivalent) *	3.39%	3.19%	3.31%	3.34%	3.40%	3.39%	3.40%
Fee income as % of total revenue	21.2%	24.1%	24.7%	23.7%	20.8%	21.2%	20.8%
Efficiency ratio	75.01%	68.12%	67.24%	67.67%	67.44%	75.01%	67.44%
CAPITAL							
Tier 1 leverage capital ratio	11.19%	10.68%	10.88%	10.73%	10.84%	11.19%	10.84%
Common equity risk-based capital ratio	13.09%	12.79%	12.65%	12.54%	12.54%	13.09%	12.54%
Tier 1 risk-based capital ratio	14.31%	13.99%	13.86%	13.76%	13.78%	14.31%	13.78%
Total risk-based capital ratio	15.56%	15.22%	15.11%	15.01%	15.02%	15.56%	15.02%
Book value per share	\$ 30.43	29.94	30.45	30.17	29.56	30.43	29.56
Tangible book value per share	\$ 26.73	26.25	26.75	26.47	25.86	26.73	25.86
Outstanding shares	4,082,479	4,079,030	4,079,030	4,081,702	4,084,868	4,082,479	4,084,868
Average outstanding shares	4,081,404	4,079,030	4,080,426	4,083,092	4,086,704	4,081,404	4,086,704
ASSET QUALITY							
Net charge-offs (recoveries)	\$ (11)	414	4	3	(15)	(11)	(15)
Net charge-offs to average loans *	-0.01%	0.22%	0.00%	0.00%	-0.01%	-0.01%	-0.01%
Allowance for loan losses	\$ 10,626	10,390	10,671	10,409	10,212	10,626	10,212
Allowance for loan losses to total loans	1.43%	1.38%	1.42%	1.40%	1.42%	1.43%	1.42%
Nonperforming loans	\$ 4,840	4,084	5,157	5,663	5,183	4,840	5,183
Other real estate owned	\$ 92	113	1,247	1,125	1,125	92	1,125
Nonperforming loans to total loans	0.65%	0.54%	0.69%	0.76%	0.72%	0.65%	0.72%
Nonperforming assets to total assets	0.46%	0.39%	0.59%	0.62%	0.60%	0.46%	0.60%
END OF PERIOD BALANCES							
Assets	\$ 1,082,313	1,087,610	1,084,123	1,086,238	1,055,616	1,082,313	1,055,616
Total S/T and L/T Investments	\$ 276,663	270,915	269,701	278,203	275,724	276,663	275,724
Total Loans	\$ 745,500	753,439	750,893	743,937	716,876	745,500	716,876
Deposits	\$ 863,378	860,997	850,353	808,664	830,555	863,378	830,555
Borrowings	\$ 85,987	95,193	97,813	143,534	94,650	85,987	94,650
Shareholders' equity	\$ 124,213	122,146	124,207	123,149	120,743	124,213	120,743
AVERAGE BALANCES							
Assets	\$ 1,077,047	1,118,642	1,081,461	1,081,127	1,056,756	1,077,047	1,056,756
Total S/T and L/T Investments	\$ 265,123	310,939	276,001	290,111	278,370	265,123	278,370
Total Loans	\$ 750,069	745,108	741,836	729,412	714,085	750,069	714,085
Deposits	\$ 855,363	889,581	837,501	857,601	822,694	855,363	822,694
Borrowings	\$ 89,480	95,009	108,484	92,564	103,010	89,480	103,010
Shareholders' equity	\$ 123,173	123,398	123,563	121,279	119,537	123,173	119,537
STOCK VALUATION							
Closing Market Price (OTCQX)	\$ 63.74	37.90	36.00	29.95	27.00	63.74	27.00
Dividend Paid	\$ 0.22	0.22	0.22	0.22	0.21	0.22	0.21
Dividend Yield *	1.38%	2.32%	2.44%	2.94%	3.11%	1.38%	3.11%
LTM P/E Ratio	27.0	15.2	14.5	11.9	11.2	27.0	11.2
% of Tangible Book Value	238.4%	144.4%	134.6%	113.1%	104.4%	238.4%	104.4%

* annualized with quarterly data