

BUILDING COMMUNITY



INDEPENDENT ALLIANCE BANKS
ANNUAL REPORT 2014



TOGETHER WE GROW

“We are building momentum...and are committed to the fundamentals of community banking.”

A true measure of a company’s vitality is the strength found in its roots – its culture, people and financial performance.

Independent Alliance Banks, Inc. built its solid foundation in 2005 by combining independent banks that were established in 1946 and further consolidated those separate banks into IAB Financial Bank in 2012. The dedication and hard work of our employees continues to build strong partnerships with our customers and the communities we serve. As the largest community bank originally founded in Allen County, our core services foster our communities’ growth and prosperity. We take pride in the many individuals and businesses we have helped with their financial goals and dreams over the past 69 years. Our foundation remains strong based on our dedicated and committed team who work diligently for the vested interest of all our stakeholders.

We are excited about the recent addition of the First State Bank of Bourbon into the IAB family. This acquisition was completed on February 1ST and we will consolidate their customers onto our systems in early March. Strategically, this expands our footprint into Marshall County and keeps IAB's commitment to community banking strong and viable in the markets we serve. Enhanced product and service capabilities will be available to these new customers, including online and mobile banking services, agribusiness, wealth and treasury management services and mortgage lending expertise. This partnership will increase IAB's total assets to over \$1 billion, total deposits to \$799 million and total loans to \$696 million.

We are grateful for a good year at IAB. In spite of continued economic and regulatory pressures, we were able to produce another year of positive financial performance and a consistent investment return to our shareholders. In fact, the last two quarters of the year reflected the highest consecutive quarterly performance on record. The company saw balance sheet growth that was fueled by increased deposits as customers continue to build cash reserves in anticipation of a higher rate environment in the future. Growth in market share and our customer base will continue to be a strategic focus for our bank. We will also continue to identify potential strategic partners and pursue further growth through acquisitions where it makes sense for our corporate culture and strategic delivery of our services.

Earnings levels for 2014 were up 33 percent over last year's performance. Our annual return on assets increased 18 basis points to .97 percent in 2014 from .79 percent in 2013. With a competitive marketplace, we continue to focus on net interest margin in order to achieve the profitability levels associated with a high performing financial institution as well as an increased emphasis on building strong partnerships with our customers through a more proactive sales culture.

One of IAB's strategic initiatives is to be a superior financial performer ranking in the top 75TH percentile of our peer banks. Our asset quality improved by 36 basis points with our non-performing assets to total assets ratio at .71 percent at year-end 2014 compared to 1.07 percent at year-end 2013. Shareholders realized an annualized dividend yield of approximately 3.36 percent at year-end 2014. Our capital ratios remain strong and well above regulatory minimums as total equity grew to nearly \$113 million at year-end 2014.

As we set our sights and goals high, we rely on people to help us get there. With changing dynamics that are inevitable within our industry, we must continue to develop a team of professionals engaged in effective execution of our strategic plan, utilize technology to maximize our efficiency as we grow, and manage our business for profitable growth.

We are building momentum, learning from the challenges of 2014, and are committed to the fundamentals of community banking. We remain focused on doing what's right for our customers and helping them succeed financially and achieve their big dreams.

Thank you for your continued support and encouragement.
The future is exciting and promising.



Michael C. Marhenke
President and Chief Executive Officer



BOARD OF DIRECTORS

Charles R. Schrimper

Chairman of the Board
Retired President/CEO
Group Dekko



Jerry A. Korte

Secretary of the Board
President
Korte Does It All, Inc.



Robert L. Caley

Grain Farmer
Caley Farms, Inc.



Brent L. Clifton

Vice Chairman of the Board
Retired President/CEO
Grabill Bank



Thomas J. Beaver

CEO
Indiana Stamp Co., Inc.
and Strataflo Products



Karl R. LaPan

President/CEO
Northeast Indiana
Innovation Center, Inc.



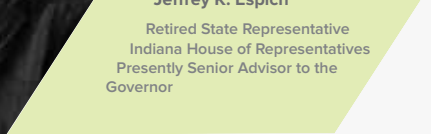
Michael C. Marhenke

President/CEO
iAB Financial Bank and
Independent Alliance Banks, Inc.



Jeffrey K. Espich

Retired State Representative
Indiana House of Representatives
Presently Senior Advisor to the
Governor



William S. Ogden

Vice President Finance
Sauder Manufacturing Co.



Kathryn A. Brogan

Partner
Eilbacher Fletcher, LLP



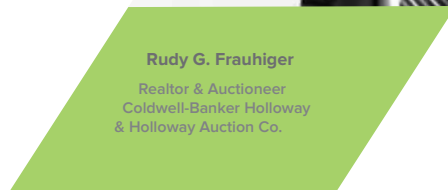
Douglas F. LeMaster, Jr.

Retired President
Agrarian Grain, Inc.



Rudy G. Frauhiger

Realtor & Auctioneer
Coldwell-Banker Holloway
& Holloway Auction Co.



STRENGTH THROUGH TEAMWORK



Dr. Ann C. McPherren
Vice President for Strategy &
Graduate & Professional Programs
Professor of Business &
Economics, Huntington University



James A. Witmer
Senior Vice President
Parkview Health

EXECUTIVE TEAM

(Left to right)

Kevin J. Himmelhaver
Executive Vice President
Chief Financial Officer

Paul J. Grandlienard
Executive Vice President
Chief Credit Officer

Michael C. Marhenke
President
Chief Executive Officer

Karen J. Cameron
Executive Vice President
Corporate Services

Michael A. Rice
Executive Vice President
Operations



ASSETS	2014	2013
Cash and cash equivalents		
Noninterest-bearing	\$ 9,020,996	\$ 9,382,205
Interest-bearing	30,661,680	28,820,625
Total cash and cash equivalents	39,682,676	38,202,830
Certificates of deposit	12,367,358	—
Available-for-sale investment securities	190,707,179	183,532,735
Loans held for sale	644,326	453,589
Loans	657,113,843	664,396,566
Allowance for loan losses	(10,057,203)	(9,938,761)
Loans, net	647,056,640	654,457,805
Buildings and equipment (net)	12,421,589	13,305,551
Federal Home Loan Bank stock	5,738,300	6,811,200
Insurance contracts	25,445,578	23,246,128
Goodwill and core deposits intangible	13,855,664	13,959,357
Other assets	12,876,838	14,712,163
Total assets	\$ 960,796,148	\$ 948,681,358

LIABILITIES

Deposits		
Noninterest-bearing	\$ 175,764,861	\$ 147,177,777
Interest-bearing	553,582,457	564,462,667
Total deposits	729,347,318	711,640,444
Short-term borrowings	41,331,274	39,901,956
Long-term debt	57,000,000	71,500,000
Junior subordinated debt	10,310,000	10,310,000
Other liabilities	9,923,870	10,573,482
Total liabilities	847,912,462	843,925,882

STOCKHOLDERS' EQUITY

Common stock and surplus	37,310,758	35,619,709
Retained earnings	81,833,617	75,948,340
Treasury stock	(8,954,128)	(8,154,580)
Accumulated other comprehensive income, net of tax	2,693,439	1,342,007
Total stockholders' equity	112,883,686	104,755,476
Total liabilities and stockholders' equity	\$ 960,796,148	\$ 948,681,358

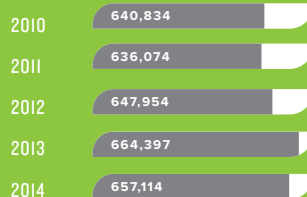


FINANCIAL HIGHLIGHTS

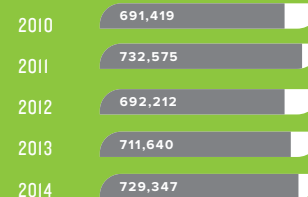
TOTAL ASSETS



TOTAL LOANS



TOTAL DEPOSITS



INTEREST INCOME

	2014	2013
Loans	\$ 30,345,723	\$ 30,718,328
Investment securities		
Taxable	1,410,217	1,317,818
Tax exempt	2,947,860	2,945,725
Dividends and other	471,509	385,409
Total interest income	35,175,309	35,367,280

INTEREST EXPENSE

Deposits	3,134,167	4,149,316
Short-term borrowings	32,040	31,591
Long-term debt	1,845,394	2,262,336
Junior subordinated debt	294,100	303,950
Total interest expense	5,305,701	6,747,193
Net interest income	29,869,608	28,620,087
Provision for loan losses	1,200,000	2,560,000
Net interest income after provision for loan losses	28,669,608	26,060,087

OTHER INCOME

Service charges on deposit accounts	1,704,188	1,777,552
Service charges on loans	285,933	359,321
Income from sale of loans	799,612	1,485,068
Fiduciary and other nontraditional activities	2,070,442	1,592,554
Net realized gains on sales of assets	32,117	61,762
Income from life insurance contracts	840,000	816,000
Other	1,687,196	1,673,256
Total other income	7,419,488	7,765,513

OTHER EXPENSES

Salaries and employee benefits	14,966,415	14,339,638
Net occupancy and equipment	3,632,456	3,501,055
Printing and office supplies	613,553	687,416
Legal, professional and other fees	2,176,711	1,996,808
Marketing	645,613	624,567
Business development	670,866	605,479
FDIC insurance	640,887	695,993
Other	1,369,797	2,573,436
Total other expenses	24,716,298	25,024,392
Income before income taxes	11,372,798	8,801,208
Income taxes	2,063,704	1,396,135
Net income	\$ 9,309,094	\$ 7,405,073
Earnings per common share	\$ 2.29	\$ 1.81
Average common shares outstanding	4,067,221	4,099,274

TOTAL EQUITY

2010	92,324
2011	100,643
2012	105,777
2013	104,755
2014	112,884

NET INCOME

2010	9,440
2011	7,798
2012	9,007
2013	7,405
2014	9,309

EARNINGS PER SHARE

2010	2.27
2011	1.88
2012	2.18
2013	1.81
2014	2.29

TANGIBLE BOOK VALUE PER SHARE

2010	18.62
2011	20.79
2012	22.17
2013	22.39
2014	24.17



INDEPENDENT ALLIANCE BANKS

WWW.IABFINANCIAL.COM



118 E. Ludwig Rd. | Fort Wayne, IN 46825

For a complete set of 2014 audited financial statements for Independent Alliance Banks, Inc., please contact:
Kevin Himmelhaver, Chief Financial Officer, 118 E. Ludwig Rd., Fort Wayne, IN 46825, 260.422.2265, kevin.himmelhaver@iabfinancial.com.