

2010 IAB Annual Report



your  
community



## Not just customers or stockholders, but neighbors and friends.

In spite of 2010's sluggish economic recovery, people served by the banks of IAB continue to smile and thrive. Strong customer relationships are based on trust and financial discipline. Our customers enjoy reliable, convenient banking services. They receive solid, responsible financial guidance. Qualified customers have access to the money they need to buy homes and run businesses. They know their banks will be there for them because they know and trust their bankers.

IAB banks believe that real community banks become a part of the foundation of the community. We work, play and live in the communities we serve and share common interests and goals with our customers. As a result, we design our products and services to meet the unique financial needs of the communities we serve. We do everything we can to make the place we live a great place to live.

where we live

# dear friends



One of the most important elements of a successful long-term investment is perspective. Proper perspective can be difficult to achieve and maintain during times of economic and market uncertainty. Your investment in Independent Alliance Banks, Inc. (IAB) has maintained a solid record of performance over the past 5 years. Your investment has yielded a 4 percent dividend return which was not reduced or eliminated during the most recent recession. And the price of IAB stock has begun to show improvement as confidence has returned to the financial markets and investors are recognizing well-run banks with consistent performance. Our perspective has been a successful one. We had a record financial year in 2010, and for that, we are truly grateful.

Our industry, however, is being challenged like never before. Financial and regulatory reform will force more time and resources on compliance and administrative issues that our customers could care less about. Significant costs for regulatory compliance are already being incurred and much more is anticipated that will control and limit fee income sources for services provided by banks.

While the Dodd-Frank Act represents the biggest re-write of financial regulations in decades, the legislation contains several provisions supported by the industry and aimed at preventing a repeat of the financial crises. However, the bill also contains several unrelated provisions that restrict the ability of traditional banks to serve their local communities. And community banks are extremely important to the lifeblood of those communities.

These challenges will cause change within our industry as well as within our own structure and organization. Yet, we will remain focused on our strategic initiatives to continue to provide a successful perspective on your investment. One of our goals is to improve the marketability of IAB stock and increase the share price. We'd also like to grow our organization, both organically and through acquisition. Organic growth focuses on driving the various segments of our existing business. New business strategies focus on understanding the changing forces impacting our industry and developing plans that are relevant to meeting these demands. This government and regulatory intervention in the banking industry could certainly force more consolidation of banks, and we plan to be ready to take advantage of these opportunities as they arise. Our franchise will grow with the organizations that fit our corporate model.

We must remain focused on our commitment to providing quality solutions and services to our customers. That's the foundation of community banking – investing local deposits to fund lending needs of businesses in our communities. We cannot let regulatory burdens distract us from thinking about business strategies. We cannot let it limit our creativity in bringing cost-effective products and services to our markets. Our customers have many alternatives, and we need to make sure that we earn their business every day.

I am excited about the future perspective of our company. With the strength in numbers that comes from our independent alliance of community banks, we are equipped with the team of professionals that can make a difference in the communities we serve.

Michael C. Marhenke  
President and Chief Executive Officer

our philosophy



true  
commun





## Independent Alliance Banks, Inc. began in May of 2005

when Grabill Bank and MarkleBank decided that the best way to survive in the constantly changing financial services world was to focus on the essence of community banking. Community banks are extremely important to the leadership, vitality and strength of the community. We committed ourselves to meeting the individual needs of our customers and providing the best solutions to help them achieve their goals. IAB employs approximately 250 employees and serves nearly 29,000 customers in Allen, Grant, Huntington, Wells and Whitley counties.

As local banks, we have deep insight into what makes each community's financial personality unique. We take the time to communicate with our customers, building trust and understanding of what each community wants and needs. We then strive to execute those services efficiently

and professionally. By combining areas of expertise, such as commercial real estate, cash management and agricultural lending, our banks provide opportunities to individuals and businesses that these banks might not be able to provide on their own.

We also commit a great deal of time and resources to expanding our base of expertise, either through training and education, or recruitment or development. In 2010, we focused on growing our capabilities in the areas of cash and wealth management. These are two financial services that are experiencing increased demand due to the aging Baby Boomer population.

A strong commitment to our customers, our communities, our owners and our employees continues to be the foundation of our corporate culture. We are confident that the values that have made IAB banks successful over the years will continue to help us grow and flourish well into the future.

homes of their dreams

968

people came to IAB to help fulfill their dream of owning a home or refinancing their mortgage in order to improve their quality of life.

building strong communities

\$250K

was invested into our communities by the banks of IAB to provide education, wellness and financial support to not-for-profit community and civic organizations who assist and serve the needs of our friends and neighbors.

making a difference

13,225

volunteer hours were provided by 250 employees to help local charities and serve the needs of others.

making banking easy

4,678,000

customer transactions allowed for convenient access to banking services.

building relationships

29,112

customers who entrusted their financial needs with us.

reaching beyond brick and mortar

875,000

website visits by individuals from the convenience of their own home.

by the

numbers



# focus on tomorrow

With the economic environment continuing to experience seismic changes, 2011 promises to present many new challenges to our industry and our company. The most prevalent issue we face is the dramatic increase in regulatory burden caused by new banking legislation. The Dodd-Frank Wall Street Reform and Consumer Protection Act will have unintended consequences not only for banks but for most businesses and consumers. It contains several unrelated provisions that restrict the ability of traditional banks to serve their local communities and provide cost effective banking products and services for our customers.

The need to modify, repackage and reprice our services to comply with these new rules will ultimately increase the costs of doing business with our customers. IAB is proactively looking at ways to streamline services and make them serve the changing needs of our customers. We are working hard to differentiate our services to create additional opportunities for our customers to receive value added benefits and for our banks to receive increased retention and profitability.

These new challenges make it more important than ever for our banks and our employees to work smarter and work together for a common goal. As 2011 unfolds, we are hopeful that more community banks will discover the benefits of partnering with our other banks who share a strong commitment to our customers and our communities.

# financial 2010-2006 highlights

(in thousands of dollars except for share data)

net income	2010	2009	2008	2007	2006
	9,440	8,427	7,403	7,653	6,420

A record \$9.4 million in net income at year-end represents an average 10% increase over the last five years.

earnings per share	2010	2009	2008	2007	2006
	6.82	6.07	5.29	5.39	4.40

With an average increase in earnings per share of 12%, your investment in IAB is solid.

total assets	2010	2009	2008	2007	2006
	931,763	891,262	903,085	846,682	876,599

We continue to focus on a strategic approach to profitable growth opportunities both organically and with strategic partners.

total loans	2010	2009	2008	2007	2006
	640,834	639,517	648,934	637,444	660,885

In the midst of continued economic pressures, we invested deposits back in our communities and helped businesses grow and prosper.

total deposits	2010	2009	2008	2007	2006
	691,419	655,684	637,393	592,432	652,028

Deposits have grown as a result of economic uncertainty, lack of equity market confidence and products that offer increased insurance protection.

total equity	2010	2009	2008	2007	2006
	92,324	86,717	81,078	76,694	74,828

IAB's capital position is strong and firmly above the regulatory standards for "well-capitalized" institutions.

book value per share	2010	2009	2008	2007	2006
	66.71	62.62	58.23	54.49	51.47

Book value of IAB stock has increased on average 7% over the last five years, achieving a higher than average return for our owners.

## assets

At December 31 **2010** **2009**

Cash & due from banks	\$ 7,481,916	\$ 4,080,499
Interest-bearing deposits	56,349,808	41,145,664
Total cash and cash equivalents	63,831,724	45,226,163
Available-for-sale investment securities	164,452,294	147,136,312
Loans held for sale	5,042,422	2,276,414
Loans	640,833,578	639,517,297
Allowance for loan losses	(9,646,883)	(8,507,170)
<b>LOANS, NET</b>	<b>631,186,695</b>	<b>631,010,127</b>
Buildings and equipment (net)	11,920,622	11,518,311
Federal Home Loan Bank stock	7,283,000	7,740,000
Insurance contracts	19,049,749	18,153,240
Goodwill and core deposits intangible	15,361,600	15,813,376
Other assets	13,635,382	12,388,229
<b>TOTAL ASSETS</b>	<b>\$ 931,763,488</b>	<b>\$ 891,262,172</b>

## liabilities

**2010** **2009**

Noninterest-bearing deposits	\$ 114,422,751	\$ 101,039,617
Interest-bearing deposits	576,995,801	554,644,520
<b>TOTAL DEPOSITS</b>	<b>691,418,552</b>	<b>655,684,137</b>
Short-term borrowings	26,087,594	20,108,206
FHLB advances	100,500,000	110,500,000
Junior subordinated debt	10,310,000	10,310,000
Other liabilities	11,123,032	7,942,380
<b>TOTAL LIABILITIES</b>	<b>839,439,178</b>	<b>804,544,723</b>

## stockholders' equity

**2010** **2009**

Common stock and surplus	35,619,709	35,619,709
Retained earnings	61,410,702	55,016,910
Treasury stock	(6,144,183)	(6,106,482)
Accumulated other comprehensive income, net of tax	1,438,082	2,187,312
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>92,324,310</b>	<b>86,717,449</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 931,763,488</b>	<b>\$ 891,262,172</b>

consolidated  
balance sheets

## interest income

	2010	2009
Loans	\$ 37,704,236	\$ 38,618,941
Investment securities:		
Taxable	3,638,014	4,488,825
Tax exempt	2,073,369	1,662,321
Dividend income and other	253,702	232,847
<b>TOTAL INTEREST INCOME</b>	<b>43,669,321</b>	<b>45,002,934</b>

## interest expense

	2010	2009
Deposits	9,970,372	11,548,465
Short-term borrowings	95,387	148,513
FHLB advances	3,697,685	4,724,481
Junior subordinated debt	304,100	376,300
<b>TOTAL INTEREST EXPENSE</b>	<b>14,067,544</b>	<b>16,797,759</b>
Net interest income	29,601,777	28,205,175
Provision for loan losses	3,083,280	2,963,000
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>26,518,497</b>	<b>25,242,175</b>

## other income

	2010	2009
Service charges on deposit accounts	2,253,208	2,550,984
Service charges on loans	401,951	388,770
Income from sale of loans	2,615,831	1,947,911
Fiduciary and other nontraditional activities	1,065,366	542,501
Net realized gains on sale of assets	115,232	382,051
Income from life insurance contracts	855,059	818,440
Other	1,518,820	1,228,160
<b>TOTAL OTHER INCOME</b>	<b>8,825,467</b>	<b>7,858,817</b>

## other expenses

	2010	2009
Salaries and employee benefits	12,305,400	11,514,011
Net occupancy and equipment	2,850,359	2,963,565
Printing and office supplies	726,923	739,973
Legal, professional and other fees	2,226,055	1,885,510
Marketing	589,423	559,634
Business development	537,129	481,875
FDIC insurance	971,837	1,434,268
Other	2,221,949	1,869,242
<b>TOTAL OTHER EXPENSES</b>	<b>22,429,075</b>	<b>21,448,078</b>
Income before income taxes	12,914,889	11,652,914
Income taxes	3,474,633	3,226,244
<b>NET INCOME</b>	<b>\$ 9,440,256</b>	<b>\$ 8,426,670</b>
<b>EARNINGS PER COMMON SHARE</b>	<b>\$ 6.82</b>	<b>\$ 6.07</b>
Average common shares outstanding	1,384,723	1,388,347



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For a complete set of 2010 audited financial statements for Independent Alliance Banks, Inc., please contact:  
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