INDIANA COMMUNITY BUSINESS CREDIT CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

CPAs / ADVISORS

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INDIANA COMMUNITY BUSINESS CREDIT CORPORATION

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Indiana Community Business Credit Corporation
Indianapolis, Indiana

We have audited the accompanying financial statements of Indiana Community Business Credit Corporation (the Company), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

REPORT OF INDEPENDENT AUDITORS
(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Blue & Co., LLC

Carmel, Indiana
April 17, 2019

INDIANA COMMUNITY BUSINESS CREDIT CORPORATION

BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

ASSETS

	2018	2017
Cash	$ 116,082	$ 739
Commercial loans	6,483,553	6,288,373
Less allowance for loan losses	(944,790)	(489,790)
Commercial loans, net	5,538,763	5,798,583
Accrued interest receivable, net of allowance for doubtful accounts of $91,602 (2018) and $86,303 (2017)	48,087	45,426
Loan fees, net	18,973	19,427
Income taxes receivable	-0-	61,996
Deferred income taxes	282,384	160,589
	$ 6,004,289	$ 6,086,760

LIABILITIES AND SHAREHOLDERS' EQUITY

	2018	2017
Liabilities:		
Accounts payable	$ 1,895	$ 102,416
Accrued interest payable	15,677	12,531
Accrued management fees	92,049	72,465
Deferred loan application fees	31,216	38,107
Income taxes payable	129,918	-0-
Notes payable	1,161,278	1,501,355
Total liabilities	1,432,033	1,726,874
Shareholders' equity:		
Common stock, no par value; 2,000 shares authorized, 697.43 shares issued, 694.43 shares outstanding	2,306,846	2,306,846
Retained earnings	2,266,460	2,054,090
Treasury stock, 3 shares at cost	(1,050)	(1,050)
Total shareholders' equity	4,572,256	4,359,886
	$ 6,004,289	$ 6,086,760

See accompanying notes to financial statements.

INDIANA COMMUNITY BUSINESS CREDIT CORPORATION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Interest income		
Interest income on loans	$ 670,423	$ 598,218
Variable transaction fees	465,247	352,413
Total interest income	1,135,670	950,631
Interest expense	71,024	61,810
Net interest income	1,064,646	888,821
Provision for loan losses, net of recovery	415,654	349,237
Net interest income after provision for loan losses	648,992	539,584
Noninterest expenses		
Management fees	339,777	313,471
Professional fees	16,126	21,164
Total noninterest expenses	355,903	334,635
Income before income taxes	293,089	204,949
Income tax expense	80,719	166,210
Net income	$ 212,370	$ 38,739

See accompanying notes to financial statements.

INDIANA COMMUNITY BUSINESS CREDIT CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2018 AND 2017

	Common Stock			Treasury Stock		
	Outstanding Shares	Amount	Retained Earnings	Shares	Amount	Total
Balances, December 31, 2016	694.43	$ 2,306,846	$ 2,015,351	3.00	$ (1,050)	$ 4,321,147
Net income	-0-	-0-	38,739	-0-	-0-	38,739
Balances, December 31, 2017	694.43	2,306,846	2,054,090	3.00	(1,050)	4,359,886
Net income	-0-	-0-	212,370	-0-	-0-	212,370
Balances, December 31, 2018	694.43	$ 2,306,846	$ 2,266,460	3.00	$ (1,050)	$ 4,572,256

See accompanying notes to financial statements.

INDIANA COMMUNITY BUSINESS CREDIT CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Operating activities		
Net income	$ 212,370	$ 38,739
Adjustments to reconcile net income to net cash flows from operating activities:		
Deferred income taxes	(121,795)	138,676
Provision for loan losses, net of recovery	415,654	349,237
Changes in operating assets and liabilities:		
Accrued interest receivable, net	(2,661)	3,686
Loan fees, net	454	389
Income taxes receivable/payable	191,914	(115,573)
Accounts payable	(100,521)	95,376
Accrued interest payable	3,146	(1,096)
Accrued management fees	19,584	(39,139)
Deferred loan application fees	(6,891)	(4,155)
Net cash flows from operating activities	611,254	466,140
Investing activities		
Loans made to customers	(1,381,575)	(1,947,860)
Principal collected on loans	1,225,741	1,768,827
Net cash flows from investing activities	(155,834)	(179,033)
Financing activities		
Proceeds from notes payable	42,423	1,132
Principal payments on notes payable	(382,500)	(287,500)
Net cash flows from financing activities	(340,077)	(286,368)
Net change in cash	115,343	739
Cash, beginning of year	739	-0-
Cash, end of year	$ 116,082	$ 739
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 67,878	$ 62,906
Cash paid during the year for income taxes	$ 10,600	$ 143,107

See accompanying notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Indiana Community Business Credit Corporation (the Company) is owned by Indiana banks (Member Banks) and provides secondary and supplemental financing to small and medium-sized Indiana companies. All loans require participation by a Member Bank in an amount at least as great as the Company's participation. The Company typically takes a collateral position which is secondary to the Member Bank's position. All of the Company's notes payable, accrued interest payable, and interest expense are to Member Banks. The Company's offices are located in Indianapolis, Indiana.

The significant accounting policies followed by the Company in the preparation of its financial statements are summarized below:

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimate that is most susceptible to material change in the near term is the allowance for loan losses.

Cash

The Company maintains its cash at high quality financial institutions. Balances may at times exceed federally insured limits.

Commercial Loans

Commercial loans are reported at the principal balance outstanding.

Interest income from loans is recognized when earned unless collection is doubtful. Loans are typically placed on non-accrual when they become 90 days past due or full repayment of principal and interest becomes doubtful, unless the loan is well secured and in the process of collection. Past due status for all loans is based on the contractual terms of the loan. 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. Loans will be returned to accrual status when they are deemed collectible.

The Company can receive additional income from its borrowers to supplement interest income on loans receivable through provisions in loan agreements for variable transaction fees. The amount of these fees is determined by the timing of payment and the financial success of the borrower. Transaction fees are recognized when received, which is when the fee amount becomes fixed and determinable and collection is assured.

Allowance for Loan Losses

The allowance for loan losses represents an amount that the loan review team estimates is adequate to provide for probable incurred losses in its loan portfolio. It is measured by a grading system using various factors as determined by the loan review team and approved by the Board of Directors. The loan review team consists of representatives from Member Banks.

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 for loan losses. While management may periodically allocate portions of the allowance to specific loans, the whole allowance is available for any loan charge-offs that occur.

The ultimate outcome of this estimate is not known. Due to this uncertainty, it is at least reasonably possible that actual losses may be significantly different.

Loans are considered impaired if full principal or interest payments are not anticipated. A portion of the allowance for loan losses is allocated to impaired loans.

Fair Value

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The fair value of impaired loans with specific allocations of the allowance for loan losses is measured on a non-recurring basis using Level 3 inputs. Impaired loans are carried at the present value of expected cash flows discounted at the loan's effective interest rate or at the fair value of the collateral if the loan is collateral-dependent.

Because of the inherent uncertainty in Level 3 inputs, the values of assets required to be valued in this manner are subject to a higher degree of uncertainty and variability.

Loan Fees Expense

Loan fees are deferred and amortized on a straight-line basis over the life of the loan as a part of management fees expense.

Application Fee Income

Application fees, net of direct origination costs, are deferred and amortized on a straight-line basis over the life of the loan as a part of interest income.

Income Taxes

Deferred income taxes arise from temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. The principal temporary differences relate to the allowance for loan losses and the allowance for doubtful accounts on accrued interest receivable.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Company and recognize a tax liability if the Company has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Company, and has concluded that as of December 31, 2018 and 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. The Company is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The Company has filed its federal and state income tax returns for periods through December 31, 2017. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Subsequent Events

The Company evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through April 17, 2019, which is the date the financial statements were available to be issued.

2. COMMERCIAL LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans were to companies in the following industries at December 31:

	2018	2017
Services	37.6%	37.3%
Manufacturing	13.8%	15.2%
Retail/other	38.9%	47.5%
Contractors	9.7%	0.0%
	100.0%	100.0%

At December 31, 2018, the Company had unfunded commitments to originate loans of $1,003,925.

The allowance for loan losses consists of the following at December 31:

	2018	2017
Balance, January 1	$ 489,790	$ 587,705
Provision for loan losses	415,654	349,237
Recoveries	39,346	3,263
Charge-offs	-0-	(450,415)
Balance, December 31	$ 944,790	$ 489,790

There were no impaired loans at December 31, 2018 and 2017.

There were no non-accrual loans at December 31, 2018 and 2017. For the years ended December 31, 2018 and 2017, there were no loans with balances 30 to 89 days past due. The balance of loans 90 days or more past due totaled $134,830 at both December 31, 2018 and 2017. These amounts related to loans still on accrual.

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed by the loan review team on a semi-annual basis, and loans are monitored by management on a monthly basis. The Company uses the following definitions for risk ratings:

- **Special Mention** – Credits which are currently protected, but potentially weak, which warrant more than normal management and officer attention. Risk could increase if favorable expectations do not materialize.

- **Substandard** – Credits involving more than normal risk with inadequate financial and repayment protection. There is a strong possibility of future loss if the deficiencies are not reacted to and corrected promptly.
- **Doubtful** – Credits for which collection in full is highly questionable and unlikely on the basis of current facts, conditions and values. The probability of loss is high but not readily quantifiable.

Loans not meeting the above criteria are considered pass rated loans. The risk rating of the loans by class of loan, based on the most recent analysis performed, is as follows at December 31:

	2018	2017
Pass	$ -0-	$ -0-
Special mention	4,352,610	5,106,185
Substandard	2,130,943	1,182,188
	$ 6,483,553	$ 6,288,373

In determining whether a restructuring of a financing receivable is a troubled debt restructuring, the Company must separately conclude that both the restructuring of the debt constitutes a concession and the debtor is experiencing financial difficulties. During the years ended December 31, 2018 and 2017, no loans were modified as troubled debt restructurings.

3. NOTES PAYABLE

Notes payable consist of the following at December 31:

	2018	2017
Unsecured revolving credit notes with Member Banks. The interest rate is variable based on the Indiana Base Rate (5.50% and 4.50% at December 31, 2018 and 2017, respectively) and is payable quarterly. Upon written notice, a credit line may be terminated by either the Company or the Member Bank and would be due within three years after termination. Unused portions of the lines of credit were approximately $24,712,000 and $23,774,000 at December 31, 2018 and 2017, respectively.	$ 1,161,278	$ 1,118,855
Unsecured warehouse lines of credit with two Member Banks maturing in June and September 2019. The interest rate is variable based on the banks' prime rate (5.50% and 4.50% at December 31, 2018 and 2017, respectively) and is payable monthly. The unused portion of the lines of credit was $1,750,000 and $1,367,500 at December 31, 2018 and 2017, respectively.	-0-	382,500
	$ 1,161,278	$ 1,501,355

4. MANAGEMENT FEES

The Company has an agreement with Cambridge Capital Management Corp. (Cambridge) to provide staffing services. The agreement automatically renews each year. The staffing services include consulting, loan packaging and servicing, office administration, and general and administrative expenses. The contract provides for basic compensation payable monthly to Cambridge, with that amount increasing annually on January 1, at a rate equal to the Consumer Price Index. Cambridge also receives additional compensation of 0.50% of loans approved and disbursed by the Company. The agreement also provides for a fee of 20% of variable transaction fees collected by the Company.

5. INCOME TAXES

Income tax expense consists of the following for the years ended December 31:

	2018	2017
Federal:		
Current	$ 153,739	$ 20,800
Deferred	(94,730)	130,998
	59,009	151,798
State:		
Current	48,775	6,734
Deferred	(27,065)	7,678
	21,710	14,412
	$ 80,719	$ 166,210

The difference between the actual income tax expense and the amount obtained by applying the Federal statutory rate to income before income taxes relates primarily to the effects of state income taxes.

The Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law on December 22, 2017. The Act significantly revised the U.S. corporate income tax system by reducing the federal income tax rate from a graduated rate structure with a top rate of 35% to a flat rate of 21%, placing limitations on the deductibility of certain expenses, and transitioning from a worldwide tax system to a territorial tax system. Accordingly, the Company has re-measured its deferred tax assets for the enactment of the Act and recorded an increase in deferred income tax expense totaling $77,320 for the change in newly enacted tax rates during 2017.

The deferred income tax asset components are as follows at December 31:

	2018	2017
Allowance for loan losses	$ 255,093	$ 132,243
Allowance for doubtful accounts on accrued interest receivable	23,985	23,302
Other	3,306	5,044
	$ 282,384	$ 160,589