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First Internet Bancorp
Form 10-Q
August 02, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period ended June 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From _____ to _____.

Commission File Number 001-35750

First Internet Bancorp
(Exact Name of Registrant as Specified in Its Charter)

Indiana 20-3489991
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

11201 USA Parkway 46037
Fishers, IN
(Address of Principal Executive Offices) (Zip Code)
(317) 532-7900
(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year,
if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer

Accelerated Filer

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Non-accelerated Filer (Do not check if a smaller reporting company) Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of July 29, 2016, the registrant had 5,533,050 shares of common stock issued and outstanding.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of the federal securities laws. These statements are not historical facts, rather statements based on the current expectations of First Internet Bancorp and its consolidated subsidiaries (“we,” “our,” “us” or the “Company”) regarding its business strategies, intended results and future performance. Forward-looking statements are generally preceded by terms such as “expects,” “believes,” “anticipates,” “intends,” “plan,” and similar expressions. Such statements are subject to certain risks and uncertainties including: general economic conditions, whether national or regional, and conditions in the lending markets in which we participate that may have an adverse effect on the demand for our loans and other products; our credit quality and related levels of nonperforming assets and loan losses, and the value and salability of the real estate that we own or that is the collateral for our loans; failures of or interruptions in the communication and information systems on which we rely to conduct our business that could reduce our revenues, increase our costs or lead to disruptions in our business; our plans to grow our commercial real estate and commercial and industrial loan portfolios which may carry greater risks of non-payment or other unfavorable consequences; our dependence on capital distributions from First Internet Bank of Indiana (the “Bank”); results of examinations of us by our regulators, including the possibility that our regulators may, among other things, require us to increase our allowance for loan losses or to write-down assets; changing bank regulatory conditions, policies or programs, whether arising as new legislation or regulatory initiatives, that could lead to restrictions on activities of banks generally, or the Bank in particular; more restrictive regulatory capital requirements; increased costs, including deposit insurance premiums; regulation or prohibition of certain income producing activities or changes in the secondary market for loans and other products; changes in market rates and prices that may adversely impact the value of securities, loans, deposits and other financial instruments and the interest rate sensitivity of our balance sheet; our liquidity requirements being adversely affected by changes in our assets and liabilities; the effect of legislative or regulatory developments, including changes in laws concerning taxes, banking, securities, insurance and other aspects of the financial services industry; competitive factors among financial services organizations, including product and pricing pressures and our ability to attract, develop and retain qualified banking professionals; the growth and profitability of noninterest or fee income being less than expected; the loss of any key members of senior management; the effect of changes in accounting policies and practices, as may be adopted by the Financial Accounting Standards Board, the Securities and Exchange Commission (the “SEC”), the Public Company Accounting Oversight Board and other regulatory agencies; and the effect of fiscal and governmental policies of the United States federal government. Additional factors that may affect our results include those discussed in our most recent Annual Report on Form 10-K under the heading “Risk Factors” and in other reports filed with the SEC. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The factors listed above could affect our financial performance and could cause our actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

Except as required by law, we do not undertake, and specifically disclaim any obligation, to publicly release the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

(i)

PART I

ITEM 1. FINANCIAL STATEMENTS

First Internet Bancorp

Condensed Consolidated Balance Sheets

(Amounts in thousands except share data)

| | June 30, 2016 (Unaudited) | December 31, 2015 |
|---|---------------------------------|----------------------|
| Assets | | |
| Cash and due from banks | \$ 1,868 | \$ 1,063 |
| Interest-bearing demand deposits | 68,140 | 24,089 |
| Total cash and cash equivalents | 70,008 | 25,152 |
| Interest-bearing time deposits | 250 | 1,000 |
| Securities available-for-sale, at fair value (amortized cost of \$430,070 and \$215,576 in 2016 and 2015, respectively) | 433,806 | 213,698 |
| Loans held-for-sale (includes \$38,128 and \$24,065 at fair value in 2016 and 2015, respectively) | 44,503 | 36,518 |
| Loans | 1,111,622 | 953,859 |
| Allowance for loan losses | (10,016) | (8,351) |
| Net loans | 1,101,606 | 945,508 |
| Accrued interest receivable | 5,508 | 4,105 |
| Federal Home Loan Bank of Indianapolis stock | 8,595 | 8,595 |
| Cash surrender value of bank-owned life insurance | 12,932 | 12,727 |
| Premises and equipment, net | 9,267 | 8,521 |
| Goodwill | 4,687 | 4,687 |
| Other real estate owned | 4,488 | 4,488 |
| Accrued income and other assets | 6,818 | 4,871 |
| Total assets | \$ 1,702,468 | \$ 1,269,870 |
| Liabilities and Shareholders' Equity | | |
| Liabilities | | |
| Noninterest-bearing deposits | \$ 28,066 | \$ 23,700 |
| Interest-bearing deposits | 1,360,867 | 932,354 |
| Total deposits | 1,388,933 | 956,054 |
| Advances from Federal Home Loan Bank | 147,974 | 190,957 |
| Subordinated debt, net of unamortized discounts and debt issuance costs of \$222 and \$276 in 2016 and 2015, respectively | 12,778 | 12,724 |
| Accrued interest payable | 138 | 117 |
| Accrued expenses and other liabilities | 16,966 | 5,688 |
| Total liabilities | 1,566,789 | 1,165,540 |
| Commitments and Contingencies | | |
| Shareholders' Equity | | |
| Preferred stock, no par value; 4,913,779 shares authorized; issued and outstanding - none | — | — |
| Voting common stock, no par value; 45,000,000 shares authorized; 5,533,050 and 4,481,347 shares issued and outstanding in 2016 and 2015, respectively | 95,642 | 72,559 |
| Nonvoting common stock, no par value; 86,221 shares authorized; issued and outstanding - none | — | — |
| Retained earnings | 37,630 | 32,980 |

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| | | |
|---|-------------|--------------|
| Accumulated other comprehensive income (loss) | 2,407 | (1,209) |
| Total shareholders' equity | 135,679 | 104,330 |
| Total liabilities and shareholders' equity | \$1,702,468 | \$ 1,269,870 |

See Notes to Condensed Consolidated Financial Statements

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First Internet Bancorp
Condensed Consolidated Statements of Income – Unaudited
(Amounts in thousands except share and per share data)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-----------|------------------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Interest Income | | | | |
| Loans | \$11,661 | \$9,043 | \$22,850 | \$17,433 |
| Securities – taxable | 1,747 | 945 | 2,916 | 1,667 |
| Securities – non-taxable | 368 | 59 | 533 | 59 |
| Other earning assets | 195 | 83 | 365 | 158 |
| Total interest income | 13,971 | 10,130 | 26,664 | 19,317 |
| Interest Expense | | | | |
| Deposits | 3,930 | 2,137 | 6,818 | 4,090 |
| Other borrowed funds | 735 | 421 | 1,399 | 881 |
| Total interest expense | 4,665 | 2,558 | 8,217 | 4,971 |
| Net Interest Income | 9,306 | 7,572 | 18,447 | 14,346 |
| Provision for Loan Losses | 924 | 304 | 1,870 | 746 |
| Net Interest Income After Provision for Loan Losses | 8,382 | 7,268 | 16,577 | 13,600 |
| Noninterest Income | | | | |
| Service charges and fees | 215 | 193 | 415 | 369 |
| Mortgage banking activities | 3,295 | 2,214 | 5,549 | 5,100 |
| Gain on sale of securities | 177 | — | 177 | — |
| Loss on asset disposals | (48) | (33) | (64) | (47) |
| Other | 109 | 102 | 211 | 202 |
| Total noninterest income | 3,748 | 2,476 | 6,288 | 5,624 |
| Noninterest Expense | | | | |
| Salaries and employee benefits | 4,329 | 3,787 | 8,227 | 7,365 |
| Marketing, advertising, and promotion | 434 | 334 | 898 | 786 |
| Consulting and professional services | 895 | 564 | 1,533 | 1,156 |
| Data processing | 275 | 233 | 549 | 481 |
| Loan expenses | 200 | 181 | 384 | 362 |
| Premises and equipment | 963 | 691 | 1,761 | 1,333 |
| Deposit insurance premium | 215 | 160 | 395 | 310 |
| Other | 564 | 377 | 1,133 | 791 |
| Total noninterest expense | 7,875 | 6,327 | 14,880 | 12,584 |
| Income Before Income Taxes | 4,255 | 3,417 | 7,985 | 6,640 |
| Income Tax Provision | 1,421 | 1,152 | 2,719 | 2,312 |
| Net Income | \$2,834 | \$2,265 | \$5,266 | \$4,328 |
| Income Per Share of Common Stock | | | | |
| Basic | \$0.57 | \$0.50 | \$1.11 | \$0.96 |
| Diluted | \$0.57 | \$0.50 | \$1.10 | \$0.95 |
| Weighted-Average Number of Common Shares Outstanding | | | | |
| Basic | 4,972,759 | 4,529,823 | 4,757,243 | 4,523,336 |
| Diluted | 4,992,025 | 4,550,034 | 4,782,700 | 4,536,736 |
| Dividends Declared Per Share | \$0.06 | \$0.06 | \$0.12 | \$0.12 |

See Notes to Condensed Consolidated Financial Statements

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First Internet Bancorp
 Condensed Consolidated Statements of Comprehensive Income – Unaudited
 (Amounts in thousands)

| | Three Months | | Six Months | |
|---|----------------|----------|----------------|----------|
| | Ended June 30, | | Ended June 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Net income | \$2,834 | \$2,265 | \$5,266 | \$4,328 |
| Other comprehensive income (loss) | | | | |
| Net unrealized holding gains (losses) on securities available-for-sale recorded within other comprehensive income before income tax | 3,917 | (2,539) | 5,791 | (1,721) |
| Reclassification adjustment for gains realized | (177) | — | (177) | — |
| Other comprehensive income (loss) before income tax | 3,740 | (2,539) | 5,614 | (1,721) |
| Income tax provision (benefit) | 1,331 | (909) | 1,998 | (618) |
| Other comprehensive income (loss) | 2,409 | (1,630) | 3,616 | (1,103) |
| Comprehensive income | \$5,243 | \$635 | \$8,882 | \$3,225 |

See Notes to Condensed Consolidated Financial Statements

First Internet Bancorp

Condensed Consolidated Statement of Shareholders' Equity - Unaudited

Six Months Ended June 30, 2016

(Amounts in thousands except per share data)

| | Voting and Nonvoting Common Stock | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total Shareholders' Equity |
|---|--|--|----------------------|----------------------------------|
| Balance, January 1, 2016 | \$ 72,559 | \$ (1,209) | \$ 32,980 | \$ 104,330 |
| Net income | — | — | 5,266 | 5,266 |
| Other comprehensive income | — | 3,616 | — | 3,616 |
| Dividends declared (\$0.12 per share) | — | — | (616) | (616) |
| Net cash proceeds from common stock issuance | 22,754 | — | — | 22,754 |
| Recognition of the fair value of share-based compensation | 358 | — | — | 358 |
| Deferred stock rights and restricted stock units issued in lieu of cash dividends payable on outstanding deferred stock rights and restricted stock units | 14 | — | — | 14 |
| Excess tax benefit on share-based compensation | 48 | — | — | 48 |
| Common stock redeemed for the net settlement of share-based awards | (91) | — | — | (91) |
| Balance, June 30, 2016 | \$ 95,642 | \$ 2,407 | \$ 37,630 | \$ 135,679 |

See Notes to Condensed Consolidated Financial Statements

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First Internet Bancorp
Condensed Consolidated Statements of Cash Flows – Unaudited
(Amounts in thousands)

| | Six Months Ended | |
|---|------------------|-----------|
| | June 30, | |
| | 2016 | 2015 |
| Operating Activities | | |
| Net income | \$5,266 | \$4,328 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 1,468 | 922 |
| Increase in cash surrender value of bank-owned life insurance | (205) | (199) |
| Provision for loan losses | 1,870 | 746 |
| Share-based compensation expense | 358 | 458 |
| Gain from sale of available-for-sale securities | (177) | — |
| Loans originated for sale | (259,095) | (277,913) |
| Proceeds from sale of loans | 256,592 | 287,065 |
| Gain on loans sold | (4,496) | (4,845) |
| (Increase) decrease in fair value of loans held-for-sale | (986) | 492 |
| Gain on derivatives | (67) | (747) |
| Net change in accrued income and other assets | (3,942) | 250 |
| Net change in accrued expenses and other liabilities | 1,485 | (563) |
| Net cash (used in) provided by operating activities | (1,929) | 9,994 |
| Investing Activities | | |
| Net loan activity, excluding purchases | (136,643) | (81,290) |
| Net change in interest-bearing time deposits | 750 | 750 |
| Maturities of securities available-for-sale | 16,303 | 10,515 |
| Proceeds from sale of securities available-for-sale | 49,430 | — |
| Purchase of securities available-for-sale | (272,129) | (65,821) |
| Purchase of Federal Home Loan Bank of Indianapolis stock | — | (1,596) |
| Purchase of premises and equipment | (1,653) | (1,586) |
| Loans purchased | (21,325) | — |
| Net cash used in investing activities | (365,267) | (139,028) |
| Financing Activities | | |
| Net increase in deposits | 432,879 | 97,905 |
| Cash dividends paid | (538) | (534) |
| Proceeds from advances from Federal Home Loan Bank | 40,000 | 180,000 |
| Repayment of advances from Federal Home Loan Bank | (83,000) | (146,000) |
| Net proceeds from common stock issuance | 22,754 | — |
| Other, net | (43) | (24) |
| Net cash provided by financing activities | 412,052 | 131,347 |
| Net Increase in Cash and Cash Equivalents | 44,856 | 2,313 |
| Cash and Cash Equivalents, Beginning of Period | 25,152 | 28,289 |
| Cash and Cash Equivalents, End of Period | \$70,008 | \$30,602 |
| Supplemental Disclosures | | |
| Cash paid during the period for interest | \$8,196 | \$4,960 |
| Cash paid during the period for taxes | 2,911 | 1,070 |
| Cash dividends declared, paid in subsequent period | 331 | 267 |
| Securities purchased during the period, settled in subsequent period | 8,705 | — |
| See Notes to Condensed Consolidated Financial Statements | | |

First Internet Bancorp

Notes to Condensed Consolidated Financial Statements – Unaudited

(Table amounts in thousands except share and per share data)

Note 1: Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and pursuant to the rules and regulations of the SEC. Accordingly, they do not include all of the information or footnotes necessary for a complete presentation of financial condition, results of operations, or cash flows in accordance with GAAP. In our opinion, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation have been included. The results of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the results expected for the year ending December 31, 2016 or any other period. The June 30, 2016 condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the First Internet Bancorp Annual Report on Form 10-K for the year ended December 31, 2015.

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates, judgments, or assumptions that could have a material effect on the carrying value of certain assets and liabilities. These estimates, judgments, and assumptions affect the amounts reported in the condensed consolidated financial statements and the disclosures provided. The determination of the allowance for loan losses, valuations and impairments of investment securities, and the accounting for income tax expense are highly dependent upon management’s estimates, judgments, and assumptions where changes in any of these could have a significant impact on the financial statements.

The condensed consolidated financial statements include the accounts of First Internet Bancorp (the “Company”), its wholly-owned subsidiary, First Internet Bank of Indiana (the “Bank”), and the Bank’s wholly-owned subsidiary, JKH Realty Services, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations, and cash flows of the Company.

Certain reclassifications have been made to the 2015 financial statements to conform to the presentation of the 2016 financial statements. These reclassifications had no effect on net income.

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Note 2: Earnings Per Share

Earnings per share of common stock are based on the weighted-average number of basic shares and dilutive shares outstanding during the period.

The following is a reconciliation of the weighted-average common shares for the basic and diluted earnings per share computations for the three and six months ended June 30, 2016 and 2015.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-----------|------------------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Basic earnings per share | | | | |
| Net income | \$2,834 | \$ 2,265 | \$5,266 | \$ 4,328 |
| Weighted-average common shares | 4,972,759 | 5,529,823 | 4,757,248 | 5,523,336 |
| Basic earnings per common share | \$0.57 | \$ 0.50 | \$1.11 | \$ 0.96 |
| Diluted earnings per share | | | | |
| Net income | \$2,834 | \$ 2,265 | \$5,266 | \$ 4,328 |
| Weighted-average common shares | 4,972,759 | 5,529,823 | 4,757,248 | 5,523,336 |
| Dilutive effect of warrants | 9,743 | 7,006 | 10,518 | 3,522 |
| Dilutive effect of equity compensation | 9,523 | 13,205 | 14,939 | 9,878 |
| Weighted-average common and incremental shares | 4,992,025 | 5,550,034 | 4,782,705 | 5,536,736 |
| Diluted earnings per common share | \$0.57 | \$ 0.50 | \$1.10 | \$ 0.95 |
| Number of warrants excluded from the calculation of diluted earnings per share as the exercise prices were greater than the average market price of the Company's common stock during the period | — | — | — | — |

Note 3: Securities

The following tables summarize securities available-for-sale as of June 30, 2016 and December 31, 2015.

| | June 30, 2016 | | | |
|------------------------------------|-------------------|------------------------------|-----------|---------------|
| | Amortized Cost | Gross Unrealized Gains | Losses | Fair Value |
| Securities available-for-sale | | | | |
| U.S. Government-sponsored agencies | \$75,133 | \$701 | \$(156) | \$75,678 |
| Municipal securities | 78,594 | 2,227 | (23) | 80,798 |
| Mortgage-backed securities | 233,886 | 2,147 | (122) | 235,911 |
| Asset-backed securities | 19,457 | — | (125) | 19,332 |
| Corporate securities | 20,000 | — | (926) | 19,074 |
| Other securities | 3,000 | 13 | — | 3,013 |
| Total available-for-sale | \$430,070 | \$5,088 | \$(1,352) | \$433,806 |

| | December 31, 2015 | | | |
|------------------------------------|-------------------|------------------------------|---------|---------------|
| | Amortized Cost | Gross Unrealized Gains | Losses | Fair Value |
| Securities available-for-sale | | | | |
| U.S. Government-sponsored agencies | \$38,093 | \$139 | \$(482) | \$37,750 |
| Municipal securities | 21,091 | 385 | (7) | 21,469 |
| Mortgage-backed securities | 113,948 | 110 | (1,006) | 113,052 |

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| | | | | | |
|--------------------------|-----------|-------|-----------|---|-----------|
| Asset-backed securities | 19,444 | — | (83 |) | 19,361 |
| Corporate securities | 20,000 | — | (913 |) | 19,087 |
| Other securities | 3,000 | — | (21 |) | 2,979 |
| Total available-for-sale | \$215,576 | \$634 | \$(2,512) | | \$213,698 |

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The carrying value of securities at June 30, 2016 is shown below by their contractual maturity date. Actual maturities will differ because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | Available-for-Sale | |
|----------------------------|--------------------|------------|
| | Amortized Cost | Fair Value |
| Within one year | \$— | \$— |
| One to five years | 400 | 362 |
| Five to ten years | 32,047 | 31,904 |
| After ten years | 141,280 | 143,284 |
| | 173,727 | 175,550 |
| Mortgage-backed securities | 233,886 | 235,911 |
| Asset-backed securities | 19,457 | 19,332 |
| Other securities | 3,000 | 3,013 |
| Total | \$430,070 | \$433,806 |

Gross gains of \$0.2 million and gross losses of \$0.0 million resulted from sales of available-for-sale securities during the three and six months ended June 30, 2016. There were no gross gains or losses recognized during the three and six months ended June 30, 2015.

Certain investments in debt securities are reported in the condensed consolidated financial statements at an amount less than their historical cost. The total fair value of these investments at June 30, 2016 and December 31, 2015 was \$103.1 million and \$166.1 million, which was approximately 24% and 78%, respectively, of the Company's available-for-sale securities portfolio. These declines resulted primarily from fluctuations in market interest rates after purchase.

U. S. Government-Sponsored Agencies, Municipal Securities and Corporate Securities

The unrealized losses on the Company's investments in securities issued by U.S. Government-sponsored agencies, municipal organizations and corporate entities were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not likely that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2016.

Mortgage-Backed and Asset-Backed Securities

The unrealized losses on the Company's investments in mortgage-backed and asset-backed securities were caused by interest rate changes. The Company expects to recover the amortized cost bases over the term of the securities. Because the Company does not intend to sell the investments and it is not likely that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2016.

Should any future impairment of these securities become other-than-temporary, the cost basis of the security will be reduced, with the resulting loss recognized in net income in the period in which the other-than-temporary impairment ("OTTI") is identified.

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The following tables show the available-for-sale securities portfolio's gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2016 and December 31, 2015.

| | June 30, 2016 | | | | | |
|------------------------------------|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
| | Less Than 12 Months | | 12 Months or Longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Securities available-for-sale | | | | | | |
| U.S. Government-sponsored agencies | \$19,171 | \$ (116) | \$4,043 | \$ (40) | \$23,214 | \$ (156) |
| Municipal securities | 2,241 | (23) | — | — | 2,241 | (23) |
| Mortgage-backed securities | 39,268 | (122) | — | — | 39,268 | (122) |
| Asset-backed securities | 9,806 | (43) | 9,526 | (82) | 19,332 | (125) |
| Corporate securities | 4,904 | (95) | 14,170 | (831) | 19,074 | (926) |
| Total | \$75,390 | \$ (399) | \$27,739 | \$ (953) | \$103,129 | \$ (1,352) |

| | December 31, 2015 | | | | | |
|------------------------------------|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
| | Less Than 12 Months | | 12 Months or Longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Securities available-for-sale | | | | | | |
| U.S. Government-sponsored agencies | \$18,289 | \$ (237) | \$8,537 | \$ (245) | \$26,826 | \$ (482) |
| Municipal securities | 1,026 | (7) | — | — | 1,026 | (7) |
| Mortgage-backed securities | 74,198 | (562) | 22,655 | (444) | 96,853 | (1,006) |
| Asset-backed securities | 19,361 | (83) | — | — | 19,361 | (83) |
| Corporate securities | 19,087 | (913) | — | — | 19,087 | (913) |
| Other securities | 2,979 | (21) | — | — | 2,979 | (21) |
| Total | \$134,940 | \$ (1,823) | \$31,192 | \$ (689) | \$166,132 | \$ (2,512) |

There were no amounts reclassified from accumulated other comprehensive income (loss) during the three and six months ended June 30, 2015. Amounts reclassified from accumulated other comprehensive income (loss) and the affected line items in the consolidated statements of income during the three and six months ended June 30, 2016 were as follows:

| Details About Accumulated Other Comprehensive Income Components | Amounts Reclassified from Accumulated Other Comprehensive Income for the | | Affected Line Item in the Statements of Income |
|---|--|--------------------------------|--|
| | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2016 | |
| Unrealized gains and losses on securities available-for-sale | | | |
| Gain realized in earnings | \$ 177 | \$ 177 | Gain on sale of securities |

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| | | | |
|---|--------|--------|----------------------------|
| Total reclassified amount before tax | 177 | 177 | Income Before Income Taxes |
| Tax expense | 60 | 60 | Income Tax Provision |
| Total reclassifications out of accumulated other comprehensive income | \$ 117 | \$ 117 | Net Income |

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Note 4: Loans

Loans that management intends to hold until maturity are reported at their outstanding principal balance adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans, and unamortized premiums or discounts on purchased loans.

For loans recorded at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

Categories of loans include:

| | June 30, 2016 | December 31, 2015 |
|---|------------------|----------------------|
| Commercial loans | | |
| Commercial and industrial | \$ 111,130 | \$ 102,000 |
| Owner-occupied commercial real estate | 46,543 | 44,462 |
| Investor commercial real estate | 12,976 | 16,184 |
| Construction | 53,368 | 45,898 |
| Single tenant lease financing | 500,937 | 374,344 |
| Total commercial loans | 724,954 | 582,888 |
| Consumer loans | | |
| Residential mortgage | 202,107 | 214,559 |
| Home equity | 38,981 | 43,279 |
| Other consumer | 141,756 | 108,312 |
| Total consumer loans | 382,844 | 366,150 |
| Total commercial and consumer loans | 1,107,798 | 949,038 |
| Deferred loan origination costs and premiums and discounts on purchased loans | 3,824 | 4,821 |
| Total loans | 1,111,622 | 953,859 |
| Allowance for loan losses | (10,016) | (8,351) |
| Net loans | \$ 1,101,606 | \$ 945,508 |

The risk characteristics of each loan portfolio segment are as follows:

Commercial and Industrial: Commercial and industrial loans' sources of repayment are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected, and the collateral securing these loans may fluctuate in value. Loans are made for working capital, equipment purchases, or other purposes. Most commercial and industrial loans are secured by the assets being financed and may incorporate a personal guarantee.

Owner-Occupied Commercial Real Estate: The primary source of repayment is the cash flow from the ongoing operations and activities conducted by the borrower, or an affiliate of the borrower, who owns the property. This portfolio segment is generally concentrated in the Central Indiana and greater Phoenix, Arizona markets and its loans often times are secured by manufacturing and service facilities, as well as office buildings.

Investor Commercial Real Estate: These loans are underwritten primarily based on the cash flow expected to be generated from the property and are secondarily supported by the value of the real estate. These loans typically incorporate a personal guarantee. This portfolio segment typically involves higher loan principal amounts, and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Investor commercial real estate loans may be more adversely

affected by conditions in the real estate markets, changing industry dynamics, or the overall health of the general economy. The properties securing the Company's investor commercial real estate portfolio tend to be diverse in terms of property type and are typically located in the state of Indiana and markets adjacent to Indiana. Management monitors and evaluates commercial real estate loans based on property financial performance, collateral value, guarantor strength, and other risk grade criteria. As a general rule, the Company avoids financing special use projects or properties outside of its designated market areas unless other underwriting factors are present to help mitigate risk.

Construction: Construction loans are secured by real estate and improvements and are made to assist in the construction of new structures, which may include commercial (retail, industrial, office, multi-family) properties or single family residential properties offered for sale by the builder. These loans generally finance a variety of project costs, including land, site preparation, construction, closing and soft costs and interim financing needs. The cash flows of builders, while initially predictable, may fluctuate with market conditions, and the value of the collateral securing these loans may be subject to fluctuations based on general economic changes.

Single Tenant Lease Financing: These loans are made to property owners of real estate subject to long term lease arrangements with single tenant operators. The real estate is typically operated by regionally, nationally or globally branded businesses. The loans are underwritten based on the financial strength of the borrower, characteristics of the real estate, cash flows generated from the lease arrangements and the financial strength of the tenant. Similar to the other loan portfolio segments, management monitors and evaluates these loans based on borrower and tenant financial performance, collateral value, industry trends and other risk grade criteria.

Residential Mortgage: With respect to residential loans that are secured by 1-4 family residences and are generally owner occupied, the Company typically establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Repayment of these loans is primarily dependent on the financial circumstances of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Repayment can also be impacted by changes in residential property values. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers in geographically diverse locations throughout the country.

Home Equity: Home equity loans and lines of credit are typically secured by a subordinate interest in 1-4 family residences. The properties securing the Company's home equity portfolio segment are generally geographically diverse as the Company offers these products on a nationwide basis. Repayment of home equity loans and lines of credit may be impacted by changes in property values on residential properties and unemployment levels, among other economic conditions and financial circumstances in the market.

Other Consumer: These loans primarily consist of consumer loans and credit cards. Consumer loans may be secured by consumer assets such as horse trailers or recreational vehicles. Some consumer loans are unsecured, such as small installment loans, home improvement loans and certain lines of credit. Repayment of consumer loans is primarily dependent upon the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers in geographically diverse locations throughout the country.

Allowance for Loan Losses Methodology

Company policy is designed to maintain an adequate allowance for loan losses (“ALLL”). The portfolio is segmented by loan type, and the required ALLL for types of performing homogeneous loans which do not have a specific reserve is determined by applying a factor based on average historical losses, adjusted for current economic factors and portfolio trends. Management believes the historical loss experience methodology is appropriate in the current economic environment as it captures loss rates that are comparable to the current period being analyzed. Management adds qualitative factors for observable trends, changes in internal practices, changes in delinquencies and impairments, and external factors. Observable factors include changes in the composition and size of portfolios, as well as loan terms or concentration levels. The Company evaluates the impact of internal changes such as management and staff experience levels or modification to loan underwriting processes. Delinquency trends are scrutinized for both volume and severity of past due, nonaccrual, or classified loans as well as any changes in the value of underlying collateral. Finally, the Company considers the effect of other external factors such as national, regional, and local economic and business conditions, as well as competitive, legal, and regulatory requirements. Loans that are considered to be impaired are evaluated to determine the need for a specific allowance by applying at least one of three methodologies: present value of future cash flows; fair value of collateral less costs to sell; or the loan’s observable market price. All troubled debt restructurings (“TDR”) are considered impaired loans. Loans evaluated for impairment are removed from other pools to prevent double-counting. Accounting Standards Codification (“ASC”) Topic 310, Receivables, requires

that impaired loans be measured based on the present value of expected future cash flows discounted at the loans' effective interest rates or the fair value of the underlying collateral less costs to sell and allows existing methods for recognizing interest income.

Provision for Loan Losses

A provision for estimated losses on loans is charged to income based upon management's evaluation of the potential losses. Such an evaluation, which includes a review of all loans for which full repayment may not be reasonably assured, considers, among other matters, the estimated net realizable value of the underlying collateral, as applicable, economic conditions, loan loss experience, and other factors that are particularly susceptible to changes that could result in a material adjustment in the near term. While management attempts to use the best information available in making its evaluations, future allowance adjustments may be necessary if economic conditions change substantially from the assumptions used in making the evaluations.

Policy for Charging Off Loans

The Company's policy is to charge off a loan at any point in time when it no longer can be considered a bankable asset, meaning collectible within the parameters of policy. A secured loan is generally charged down to the estimated fair value of the collateral, less costs to sell, no later than when it is 120 days past due as to principal or interest. An unsecured loan generally is charged off no later than when it is 180 days past due as to principal or interest. A home improvement loan generally is charged off no later than when it is 90 days past due as to principal or interest.

The following tables present changes in the balance of the ALLL during the three and six month periods ended June 30, 2016 and 2015.

| | Three Months Ended June 30, 2016 | | | | | | | | Total |
|---------------------------------------|----------------------------------|----------------------------|---------------------------------|--------------|-------------------------------|----------------------|-------------|----------------|-----------|
| | Commercial and industrial | Owner-occupied real estate | Investor commercial real estate | Construction | Single tenant lease financing | Residential mortgage | Home equity | Other consumer | |
| Allowance for loan losses: | | | | | | | | | |
| Balance, beginning of period | \$ 1,383 | \$ 475 | \$ 197 | \$ 563 | \$ 4,678 | \$ 871 | \$ 120 | \$ 933 | \$ 9,220 |
| Provision (credit) charged to expense | 451 | (14) | (26) | (8) | 381 | 42 | 30 | 68 | 924 |
| Losses charged off | — | — | — | — | — | (134) | (33) | (65) | (232) |
| Recoveries | — | — | — | — | — | 2 | 4 | 98 | 104 |
| Balance, end of period | \$ 1,834 | \$ 461 | \$ 171 | \$ 555 | \$ 5,059 | \$ 781 | \$ 121 | \$ 1,034 | \$ 10,016 |
| | Six Months Ended June 30, 2016 | | | | | | | | Total |
| | Commercial and industrial | Owner-occupied real estate | Investor commercial real estate | Construction | Single tenant lease financing | Residential mortgage | Home equity | Other consumer | |
| Allowance for loan losses: | | | | | | | | | |
| Balance, beginning of period | \$ 1,367 | \$ 476 | \$ 212 | \$ 500 | \$ 3,931 | \$ 896 | \$ 125 | \$ 844 | \$ 8,351 |
| Provision (credit) charged to expense | 467 | (15) | (41) | 55 | 1,128 | (8) | 23 | 261 | 1,870 |
| Losses charged off | — | — | — | — | — | (134) | (33) | (214) | (381) |
| Recoveries | — | — | — | — | — | 27 | 6 | 143 | 176 |
| Balance, end of period | \$ 1,834 | \$ 461 | \$ 171 | \$ 555 | \$ 5,059 | \$ 781 | \$ 121 | \$ 1,034 | \$ 10,016 |

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Three Months Ended June 30, 2015

| | Commercial and industrial | Owner-occupied real estate | Investor commercial real estate | Construction | Single tenant lease financing | Residential mortgage | Home equity | Other consumer | Total |
|---------------------------------------|---------------------------|----------------------------|---------------------------------|--------------|-------------------------------|----------------------|-------------|----------------|----------|
| Allowance for loan losses: | | | | | | | | | |
| Balance, beginning of period | \$ 1,010 | \$ 391 | \$ 218 | \$ 359 | \$ 2,452 | \$ 988 | \$ 203 | \$ 757 | \$ 6,378 |
| Provision (credit) charged to expense | 191 | 48 | (457) | (132) | 641 | 42 | (46) | 17 | 304 |
| Losses charged off | — | — | — | — | — | (100) | — | (132) | (232) |
| Recoveries | — | — | 500 | — | — | 3 | — | 120 | 623 |
| Balance, end of period | \$ 1,201 | \$ 439 | \$ 261 | \$ 227 | \$ 3,093 | \$ 933 | \$ 157 | \$ 762 | \$ 7,073 |

Six Months Ended June 30, 2015

| | Commercial and industrial | Owner-occupied real estate | Investor commercial real estate | Construction | Single tenant lease financing | Residential mortgage | Home equity | Other consumer | Total |
|---------------------------------------|---------------------------|----------------------------|---------------------------------|--------------|-------------------------------|----------------------|-------------|----------------|----------|
| Allowance for loan losses: | | | | | | | | | |
| Balance, beginning of period | \$ 920 | \$ 345 | \$ 261 | \$ 330 | \$ 2,061 | \$ 985 | \$ 207 | \$ 691 | \$ 5,800 |
| Provision (credit) charged to expense | 281 | 94 | (500) | (103) | 1,032 | (152) | (50) | 144 | 746 |
| Losses charged off | — | — | — | — | — | (171) | — | (289) | (460) |
| Recoveries | — | — | 500 | — | — | 271 | — | 216 | 987 |
| Balance, end of period | \$ 1,201 | \$ 439 | \$ 261 | \$ 227 | \$ 3,093 | \$ 933 | \$ 157 | \$ 762 | \$ 7,073 |

The following tables present the recorded investment in loans based on portfolio segment and impairment method as of June 30, 2016, and December 31, 2015.

June 30, 2016

| | Commercial and industrial | Owner-occupied real estate | Investor commercial real estate | Construction | Single tenant lease financing | Residential mortgage | Home equity | Other consumer | Total |
|---|---------------------------|----------------------------|---------------------------------|--------------|-------------------------------|----------------------|-------------|----------------|--------------|
| Loans: | | | | | | | | | |
| Ending balance: collectively evaluated for impairment | \$ 106,414 | \$ 46,543 | \$ 12,976 | \$ 53,368 | \$ 500,937 | \$ 200,260 | \$ 38,981 | \$ 141,603 | \$ 1,101,082 |
| Ending balance: individually evaluated for impairment | 4,716 | — | — | — | — | 1,847 | — | 153 | 6,716 |
| Ending balance | \$ 111,130 | \$ 46,543 | \$ 12,976 | \$ 53,368 | \$ 500,937 | \$ 202,107 | \$ 38,981 | \$ 141,756 | \$ 1,107,798 |
| Allowance for loan losses: | | | | | | | | | |
| Ending balance: collectively evaluated for | \$ 1,362 | \$ 461 | \$ 171 | \$ 555 | \$ 5,059 | \$ 781 | \$ 121 | \$ 1,034 | \$ 9,544 |

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| | | | | | | | | | |
|-----------------|---------|--------|--------|--------|---------|-------|-------|---------|----------|
| impairment | | | | | | | | | |
| Ending balance: | | | | | | | | | |
| individually | 472 | — | — | — | — | — | — | — | 472 |
| evaluated for | | | | | | | | | |
| impairment | | | | | | | | | |
| Ending balance | \$1,834 | \$ 461 | \$ 171 | \$ 555 | \$5,059 | \$781 | \$121 | \$1,034 | \$10,016 |

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| | December 31, 2015 | | | | | | | | |
|---|---------------------------------|---|---------------------------------------|--------------|--|-------------------------|----------------|-------------------|------------|
| | Commercial and industrial | Owner-occupied commercial real estate | Investor commercial real estate | Construction | Single tenant lease financing | Residential mortgage | Home equity | Other consumer | Total |
| Loans: | | | | | | | | | |
| Ending balance: | | | | | | | | | |
| collectively evaluated for impairment | \$ 102,000 | \$ 44,462 | \$ 16,184 | \$ 45,898 | \$ 374,344 | \$ 213,426 | \$ 43,279 | \$ 108,163 | \$ 947,756 |
| Ending balance: | | | | | | | | | |
| individually evaluated for impairment | — | — | — | — | — | 1,133 | — | 149 | 1,282 |
| Ending balance | \$ 102,000 | \$ 44,462 | \$ 16,184 | \$ 45,898 | \$ 374,344 | \$ 214,559 | \$ 43,279 | \$ 108,312 | \$ 949,038 |
| Allowance for loan losses: | | | | | | | | | |
| Ending balance: | | | | | | | | | |
| collectively evaluated for impairment | \$ 1,367 | \$ 476 | \$ 212 | \$ 500 | \$ 3,931 | \$ 896 | \$ 125 | \$ 844 | \$ 8,351 |
| Ending balance: | | | | | | | | | |
| individually evaluated for impairment | — | — | — | — | — | — | — | — | — |
| Ending balance | \$ 1,367 | \$ 476 | \$ 212 | \$ 500 | \$ 3,931 | \$ 896 | \$ 125 | \$ 844 | \$ 8,351 |

The Company utilizes a risk grading matrix to assign a risk grade to each of its commercial loans. Loans are graded on a scale of 1 to 9. A description of the general characteristics of the nine risk grades is as follows:

“Pass” (Grades 1-5) - Higher quality loans that do not fit any of the other categories described below.

“Special Mention” (Grade 6) - Loans that possess some credit deficiency or potential weakness which deserve close attention.

“Substandard” (Grade 7) - Loans that possess a defined weakness or weaknesses that jeopardize the liquidation of the debt. Loans characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Loans that are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any.

“Doubtful” (Grade 8) - Such loans have been placed on nonaccrual status and may be heavily dependent upon collateral possessing a value that is difficult to determine or based upon some near-term event which lacks clear certainty. These loans have all of the weaknesses of those classified as Substandard; however, based on existing conditions, these weaknesses make full collection of the principal balance highly improbable.

“Loss” (Grade 9) - Loans that are considered uncollectible and of such little value that continuing to carry them as assets is not warranted.

Nonaccrual Loans

Any loan which becomes 90 days delinquent or for which the full collection of principal and interest may be in doubt will be considered for nonaccrual status. At the time a loan is placed on nonaccrual status, all accrued but unpaid interest will be reversed from interest income. Placing the loan on nonaccrual status does not relieve the borrower of the obligation to repay interest. A loan placed on nonaccrual status may be restored to accrual status when all delinquent principal and interest has been brought current, and the Company expects full payment of the remaining contractual principal and interest.

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The following tables present the credit risk profile of the Company's commercial and consumer loan portfolios based on rating category and payment activity as of June 30, 2016 and December 31, 2015.

June 30, 2016

| | Commercial and industrial | Owner-occupied commercial real estate | Investor commercial real estate | Construction | Single tenant lease financing | Total |
|-------------------|---------------------------|---------------------------------------|---------------------------------|--------------|-------------------------------|-----------|
| Rating: | | | | | | |
| 1-5 Pass | \$104,842 | \$ 46,531 | \$ 12,976 | \$ 53,074 | \$500,937 | \$718,360 |
| 6 Special Mention | 1,001 | — | — | 294 | — | 1,295 |
| 7 Substandard | 5,287 | 12 | — | — | — | 5,299 |
| 8 Doubtful | — | — | — | — | — | — |
| Total | \$111,130 | \$ 46,543 | \$ 12,976 | \$ 53,368 | \$500,937 | \$724,954 |

June 30, 2016

| | Residential mortgage | Home equity | Other consumer | Total |
|------------|----------------------|-------------|----------------|-----------|
| Performing | \$201,263 | \$38,981 | \$141,682 | \$381,926 |
| Nonaccrual | 844 | — | 74 | 918 |
| Total | \$202,107 | \$38,981 | \$141,756 | \$382,844 |

December 31, 2015

| | Commercial and industrial | Owner-occupied commercial real estate | Investor commercial real estate | Construction | Single tenant lease financing | Total |
|-------------------|---------------------------|---------------------------------------|---------------------------------|--------------|-------------------------------|-----------|
| Rating: | | | | | | |
| 1-5 Pass | \$95,589 | \$ 43,913 | \$ 14,746 | \$ 45,599 | \$374,344 | \$574,191 |
| 6 Special Mention | 2,006 | 535 | — | 299 | — | 2,840 |
| 7 Substandard | 4,405 | 14 | 1,438 | — | — | 5,857 |
| 8 Doubtful | — | — | — | — | — | — |
| Total | \$102,000 | \$ 44,462 | \$ 16,184 | \$ 45,898 | \$374,344 | \$582,888 |

December 31, 2015

| | Residential mortgage | Home equity | Other consumer | Total |
|------------|----------------------|-------------|----------------|-----------|
| Performing | \$214,456 | \$43,279 | \$108,248 | \$365,983 |
| Nonaccrual | 103 | — | 64 | 167 |
| Total | \$214,559 | \$43,279 | \$108,312 | \$366,150 |

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The following tables present the Company's loan portfolio delinquency analysis as of June 30, 2016 and December 31, 2015.

| | June 30, 2016 | | | | Current | Total Commercial and Consumer Loans | Non-accrual Loans | Total Loans 90 Days or More Past Due and Accruing |
|---------------------------------------|---------------------|---------------------|--------------------------|----------------|--------------|-------------------------------------|-------------------|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More Past Due | Total Past Due | | | | |
| Commercial and industrial | \$ 17 | \$ — | \$ — | \$ 17 | \$ 111,113 | \$ 111,130 | \$ 4,716 | \$ — |
| Owner-occupied commercial real estate | — | — | — | — | 46,543 | 46,543 | — | — |
| Investor commercial real estate | — | — | — | — | 12,976 | 12,976 | — | — |
| Construction | — | — | — | — | 53,368 | 53,368 | — | — |
| Single tenant lease financing | — | — | — | — | 500,937 | 500,937 | — | — |
| Residential mortgage | — | — | 810 | 810 | 201,297 | 202,107 | 844 | — |
| Home equity | — | — | — | — | 38,981 | 38,981 | — | — |
| Other consumer | 127 | 42 | 5 | 174 | 141,582 | 141,756 | 74 | 5 |
| Total | \$ 144 | \$ 42 | \$ 815 | \$ 1,001 | \$ 1,106,797 | \$ 1,107,798 | \$ 5,634 | \$ 5 |

| | December 31, 2015 | | | | Current | Total Commercial and Consumer Loans | Non-accrual Loans | Total Loans 90 Days or More Past Due and Accruing |
|---------------------------------------|---------------------|---------------------|--------------------------|----------------|------------|-------------------------------------|-------------------|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More Past Due | Total Past Due | | | | |
| Commercial and industrial | \$ 29 | \$ — | \$ — | \$ 29 | \$ 101,971 | \$ 102,000 | \$ — | \$ — |
| Owner-occupied commercial real estate | — | — | — | — | 44,462 | 44,462 | — | — |
| Investor commercial real estate | — | — | — | — | 16,184 | 16,184 | — | — |
| Construction | — | — | — | — | 45,898 | 45,898 | — | — |
| Single tenant lease financing | — | — | — | — | 374,344 | 374,344 | — | — |
| Residential mortgage | 300 | 23 | 45 | 368 | 214,191 | 214,559 | 103 | — |
| Home equity | 20 | — | — | 20 | 43,259 | 43,279 | — | — |
| Other consumer | 116 | 12 | — | 128 | 108,184 | 108,312 | 64 | — |
| Total | \$ 465 | \$ 35 | \$ 45 | \$ 545 | \$ 948,493 | \$ 949,038 | \$ 167 | \$ — |

Impaired Loans

A loan is designated as impaired, in accordance with the impairment accounting guidance when, based on current information or events, it is probable that the Company will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. Payments with delays generally not exceeding 90 days outstanding are not considered impaired. Certain nonaccrual and substantially all delinquent loans more than 90 days past due may be considered to be impaired. Generally, loans are placed on nonaccrual status at 90 days past due and accrued interest is reversed against earnings, unless the loan is well-secured and in the process of collection. The accrual of interest on impaired and nonaccrual loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due.

Impaired loans include nonperforming loans as well as loans modified in TDRs where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the

loan, payment extensions, forgiveness of principal, forbearance, or other actions intended to maximize collection.

ASC Topic 310, Receivables, requires that impaired loans be measured based on the present value of expected future cash flows discounted at the loans' effective interest rates or the fair value of the underlying collateral, less costs to sell, and allows existing methods for recognizing interest income.

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The following table presents the Company's impaired loans as of June 30, 2016 and December 31, 2015. The Company had no impaired loans with a specific valuation allowance as of December 31, 2015.

| | June 30, 2016 | | | December 31, 2015 | | |
|--|---------------------|--------------------------------|-----------------------|---------------------|--------------------------------|-----------------------|
| | Recorded Balance | Unpaid Principal Balance | Specific Allowance | Recorded Balance | Unpaid Principal Balance | Specific Allowance |
| Loans without a specific valuation allowance | | | | | | |
| Residential mortgage | \$ 1,847 | \$ 1,973 | \$ — | \$ 1,133 | \$ 1,154 | \$ — |
| Other consumer | 153 | 184 | — | 149 | 178 | — |
| Total | 2,000 | 2,157 | — | 1,282 | 1,332 | — |
| Loans with a specific valuation allowance | | | | | | |
| Commercial and industrial | \$ 4,716 | \$ 4,716 | \$ 472 | \$ — | \$ — | \$ — |
| Total | 4,716 | 4,716 | 472 | — | — | — |
| Total impaired loans | \$ 6,716 | \$ 6,873 | \$ 472 | \$ 1,282 | \$ 1,332 | \$ — |

The table below presents average balances and interest income recognized for impaired loans during the three and six month periods ended June 30, 2016 and June 30, 2015.

| | Three Months Ended June 30, 2016 | | Six Months Ended | | Three Months Ended June 30, 2015 | | Six Months Ended | |
|--|--|--------------------|---------------------|--------------------|--|--------------------|---------------------|--------------------|
| | Average Balance | Interest Income | Average Balance | Interest Income | Average Balance | Interest Income | Average Balance | Interest Income |
| Loans without a specific valuation allowance | | | | | | | | |
| Investor commercial real estate | \$— | \$ — | \$— | \$ — | \$— | \$ — | \$43 | \$ 2 |
| Residential mortgage | 1,489 | 1 | 1,278 | 4 | 1,110 | 2 | 1,085 | 4 |
| Other consumer | 138 | 2 | 147 | 4 | 215 | 3 | 168 | 6 |
| Total | 1,627 | 3 | 1,425 | 8 | 1,325 | 5 | 1,296 | 12 |
| Loans with a specific valuation allowance | | | | | | | | |
| Commercial and industrial | \$ 1,179 | \$ — | 590 | — | \$— | \$ — | — | — |
| Residential mortgage | — | — | — | — | 60 | — | 30 | — |
| Other consumer | — | — | — | — | — | — | 27 | 1 |
| Total | 1,179 | — | 590 | — | 60 | — | 57 | 1 |
| Total impaired loans | \$ 2,806 | \$ 3 | \$ 2,015 | \$ 8 | \$ 1,385 | \$ 5 | \$ 1,353 | \$ 13 |

There were no residential mortgage loans in other real estate owned at June 30, 2016 or December 31, 2015 and there were less than \$0.1 million of loans at June 30, 2016 and December 31, 2015 in the process of foreclosure.

Note 5: Premises and Equipment

The following table summarizes premises and equipment at June 30, 2016 and December 31, 2015.

| | June 30, December 31, | |
|--------------------------------|-----------------------|----------|
| | 2016 | 2015 |
| Land | \$ 2,500 | \$ 2,500 |
| Building and improvements | 4,702 | 4,636 |
| Furniture and equipment | 6,298 | 6,164 |
| Less: accumulated depreciation | (4,233) | (4,779) |
| | \$ 9,267 | \$ 8,521 |

Note 6: Goodwill

The following table shows the changes in the carrying amount of goodwill for the periods ended June 30, 2016 and December 31, 2015.

| | |
|---------------------------------------|---------|
| Balance as of January 1, 2015 | \$4,687 |
| Changes in goodwill during the year | — |
| Balance as of December 31, 2015 | 4,687 |
| Changes in goodwill during the period | — |
| Balance as of June 30, 2016 | \$4,687 |

Goodwill is tested for impairment on an annual basis as of August 31, or whenever events or changes in circumstances indicate the carrying amount of goodwill exceeds its implied fair value. No events or changes in circumstances have occurred since the August 31, 2015 annual impairment test that would suggest it was more likely than not goodwill impairment existed.

Note 7: Subordinated Debt

In June 2013, the Company issued a subordinated debenture (the “Debenture”) in the principal amount of \$3.0 million. The Debenture bears a fixed interest rate of 8.00% per year, payable quarterly, and is scheduled to mature on June 28, 2021. The Debenture may be repaid, without penalty, at any time after June 28, 2016. The Debenture is intended to qualify as Tier 2 capital under regulatory guidelines.

In connection with the Debenture, the Company also issued a warrant to purchase up to 48,750 shares of common stock at an initial per share exercise price equal to \$19.33. The warrant became exercisable on June 28, 2014 and, unless previously exercised, will expire on June 28, 2021. The Company has the right to force an exercise of the warrant after the Debenture has been repaid in full if the 20-day volume-weighted average price of a share of its common stock exceeds \$30.00.

The Company used the Black-Scholes option pricing model to assign a fair value of \$0.3 million to the warrant as of June 28, 2013. The following assumptions were used to value the warrant: a risk-free interest rate of 0.66% per the U.S. Treasury yield curve in effect at the date of issuance, an expected dividend yield of 1.19% calculated using the dividend rate and stock price at the date of the issuance, and an expected volatility of 34% based on the estimated volatility of the Company’s stock over the expected term of the warrant, which is estimated to be three years.

In October 2015, the Company issued subordinated notes (the “Notes”) in the principal amount of \$10.0 million. The Notes bear a fixed interest rate of 6.4375% per year, payable quarterly, and are scheduled to mature on October 1, 2025. The Notes may be repaid, without penalty, on any interest payment date on or after October 15, 2020. The Notes are intended to qualify as Tier 2 capital under regulatory guidelines.

The following table presents the principal balance and unamortized discount and debt issuance costs for the Debenture and the Notes as of June 30, 2016 and December 31, 2015.

| | June 30, 2016 | | December 31, 2015 | |
|--|-----------------------------------|--------|-----------------------------------|----------|
| | Unamortized Discount | | Unamortized Discount | |
| | Principal and Debt Issuance Costs | | Principal and Debt Issuance Costs | |
| 8.00% subordinated debenture, due 2021 | \$3,000 | \$ — | \$3,000 | \$ (42) |
| 6.4375% subordinated notes, due 2025 | 10,000 | (222) | 10,000 | (234) |

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Total \$13,000 \$ (222) \$13,000 \$ (276)

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Note 8: Benefit Plans

Employment Agreement

The Company has entered into an employment agreement with its Chief Executive Officer that provides for the continuation of salary and certain benefits for a specified period of time under certain conditions. Under the terms of the agreement, these payments could occur in the event of a change in control of the Company, as defined in the agreement, along with other specific conditions.

2013 Equity Incentive Plan

The 2013 Equity Incentive Plan (the “2013 Plan”) authorizes the issuance of 750,000 shares of the Company’s common stock in the form of equity-based awards to employees, directors, and other eligible persons. Under the terms of the 2013 Plan, the pool of shares available for issuance may be used for available types of equity awards under the 2013 Plan, which includes stock options, stock appreciation rights, restricted stock awards, stock unit awards, and other share-based awards. All employees, consultants, and advisors of the Company or any subsidiary, as well as all non-employee directors of the Company, are eligible to receive awards under the 2013 Plan.

The Company recorded \$0.2 million and \$0.4 million of share-based compensation expense for the three and six month periods ended June 30, 2016, respectively, related to awards made under the 2013 Plan. The Company recorded \$0.2 million and \$0.5 million of share-based compensation expense for the three and six month periods ended June 30, 2015, respectively, related to awards made under the 2013 Plan.

The following table summarizes the status of the 2013 Plan awards as of June 30, 2016, and activity for the six months ended June 30, 2016.

| | Restricted Stock Units | Weighted-Average Grant Date Fair Value Per Share | Restricted Stock Awards | Weighted-Average Grant Date Fair Value Per Share | Deferred Stock Units | Weighted-Average Grant Date Fair Value Per Share |
|--------------------------------|------------------------|--|-------------------------|--|----------------------|--|
| Nonvested at December 31, 2015 | 28,302 | \$ 18.90 | 27,529 | \$ 18.17 | — | \$ — |
| Granted | 30,704 | 25.63 | 10,232 | 24.44 | 5 | 24.10 |
| Vested | (9,470) | 18.92 | (18,815) | 19.94 | (5) | 24.10 |
| Nonvested at June 30, 2016 | 49,536 | \$ 23.07 | 18,946 | \$ 19.81 | — | \$ — |

At June 30, 2016, the total unrecognized compensation cost related to nonvested awards was \$1.1 million with a weighted-average expense recognition period of 2.1 years.

Directors Deferred Stock Plan

Until January 1, 2014, the Company had a stock compensation plan for members of the Board of Directors (“Directors Deferred Stock Plan”). The Company reserved 180,000 shares of common stock that could have been issued pursuant to the Directors Deferred Stock Plan. The plan provided directors the option to elect to receive up to 100% of their annual retainer in either common stock or deferred stock rights. Deferred stock rights were to be settled in common stock following the end of the deferral period payable on the basis of one share of common stock for each deferred stock right.

The following table summarizes the status of deferred stock rights related to the Directors Deferred Stock Plan for the six months ended June 30, 2016.

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| | Deferred Stock Rights |
|----------------------------------|-----------------------------|
| Outstanding, beginning of period | 81,693 |
| Granted | 341 |
| Exercised | — |
| Outstanding, end of period | 82,034 |

All deferred stock rights granted during the 2016 period were additional rights issued in lieu of cash dividends payable on outstanding deferred stock rights.

Note 9: Fair Value of Financial Instruments

ASC Topic 820, Fair Value Measurement, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying condensed consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows.

Level 2 securities include U.S. Government-sponsored agencies, municipal securities, mortgage and asset-backed securities and certain corporate securities. Matrix pricing is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities but also on the investment securities' relationship to other benchmark quoted investment securities.

In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. Fair values are calculated using discounted cash flows. Discounted cash flows are calculated based off of the anticipated future cash flows updated to incorporate loss severities. Rating agency and industry research reports as well as default and deferral activity are reviewed and incorporated into the calculation. The Company did not own any securities classified within Level 3 of the hierarchy as of June 30, 2016 or December 31, 2015.

Loans Held-for-Sale (mandatory pricing agreements)

The fair value of loans held-for-sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan (Level 2).

Forward Contracts

The fair values of forward contracts on to-be-announced securities are determined using quoted prices in active markets, or benchmarked thereto (Level 1).

Interest Rate Lock Commitments

The fair values of interest rate lock commitments (“IRLCs”) are determined using the projected sale price of individual loans based on changes in market interest rates, projected pull-through rates (the probability that an IRLC will ultimately result in an originated loan), the reduction in the value of the applicant’s option due to the passage of time, and the remaining origination costs to be incurred based on management’s estimate of market costs (Level 3).

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The following tables present the fair value measurements of assets and liabilities recognized in the accompanying condensed consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2016 and December 31, 2015.

| | June 30, 2016 | | | |
|--|--|---|---|-------|
| | Fair Value Measurements Using | | | |
| Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| U.S. Government-sponsored agencies | \$75,678 | \$ — | \$ 75,678 | \$ — |
| Municipal securities | 80,798 | — | 80,798 | — |
| Mortgage-backed securities | 235,911 | — | 235,911 | — |
| Asset-backed securities | 19,332 | — | 19,332 | — |
| Corporate securities | 19,074 | — | 19,074 | — |
| Other securities | 3,013 | 3,013 | — | — |
| Total available-for-sale securities | 433,806 | 3,013 | 430,793 | — |
| Loans held-for-sale (mandatory pricing agreements) | 38,128 | — | 38,128 | — |
| Forward contracts | (1,045) | (1,045) | — | — |
| IRLCs | 1,724 | — | — | 1,724 |

| | December 31, 2015 | | | |
|--|--|---|---|------|
| | Fair Value Measurements Using | | | |
| Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| U.S. Government-sponsored agencies | \$37,750 | \$ — | \$ 37,750 | \$ — |
| Municipal securities | 21,469 | — | 21,469 | — |
| Mortgage-backed securities | 113,052 | — | 113,052 | — |
| Asset-backed securities | 19,361 | — | 19,361 | — |
| Corporate securities | 19,087 | — | 19,087 | — |
| Other securities | 2,979 | 2,979 | — | — |
| Total available-for-sale securities | 213,698 | 2,979 | 210,719 | — |
| Loans held-for-sale (mandatory pricing agreements) | 24,065 | — | 24,065 | — |
| Forward contracts | 30 | 30 | — | — |
| IRLCs | 582 | — | — | 582 |

The following tables reconcile the beginning and ending balances of recurring fair value measurements recognized in the accompanying condensed consolidated balance sheets using significant unobservable (Level 3) inputs for the three and six month periods ended June 30, 2016 and June 30, 2015.

| | Three Months Ended Interest Rate Lock Commitments |
|------------------------|---|
| Balance, April 1, 2016 | \$ 1,283 |
| Total realized gains | |
| Included in net income | 441 |
| Balance, June 30, 2016 | \$ 1,724 |

| | |
|------------------------|--------|
| Balance, April 1, 2015 | \$ 913 |
| Total realized gains | |
| Included in net income | (290) |
| Balance, June 30, 2015 | \$ 623 |

| | Six Months Ended Interest Rate Lock Commitments |
|--------------------------|---|
| Balance, January 1, 2016 | \$ 582 |
| Total realized gains | |
| Included in net income | 1,142 |
| Balance, June 30, 2016 | \$ 1,724 |

| | |
|--------------------------|--------|
| Balance, January 1, 2015 | \$ 521 |
| Total realized gains | |
| Included in net income | 102 |
| Balance, June 30, 2015 | \$ 623 |

The following describes valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis, as well as the general classification of such assets pursuant to the valuation hierarchy.

Impaired Loans

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. The amount of the impairment may be determined based on the fair value of the underlying collateral, less costs to sell, the estimated present value of future cash flows or the loan's observable market price.

If the impaired loan is identified as collateral dependent, the fair value of the underlying collateral, less costs to sell, is used to measure impairment. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value. If the impaired loan is not collateral dependent, the Company utilizes a discounted cash flow analysis to measure impairment.

Impaired loans with a specific valuation allowance based on the value of the underlying collateral or a discounted cash flow analysis are classified as Level 3 assets.

Significant Unobservable (Level 3) Inputs

The following tables present quantitative information about significant unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements other than goodwill.

| | Fair Value at June 30, 2016 | Valuation Technique | Significant Unobservable Inputs | Range |
|-------|---------------------------------|----------------------|---------------------------------|------------|
| IRLCs | 1,724 | Discounted cash flow | Loan closing rates | 36% - 99% |
| | Fair Value at December 31, 2015 | Valuation Technique | Significant Unobservable Inputs | Range |
| IRLCs | \$ 582 | Discounted cash flow | Loan closing rates | 43% - 100% |

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying condensed consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents

For these instruments, the carrying amount is a reasonable estimate of fair value.

Interest-Bearing Time Deposits

The fair value of these financial instruments approximates carrying value.

Loans Held-for-Sale (best efforts pricing agreements)

The fair value of these loans approximates carrying value.

Loans

The fair value of loans is estimated by discounting future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and remaining maturities.

Accrued Interest Receivable

The fair value of these financial instruments approximates carrying value.

Federal Home Loan Bank of Indianapolis Stock

The fair value approximates carrying value.

Deposits

The fair value of noninterest-bearing and interest-bearing demand deposits, savings and money market accounts approximates carrying value. The fair value of fixed maturity certificates of deposit and brokered deposits are estimated using rates currently offered for deposits of similar remaining maturities.

Advances from Federal Home Loan Bank

The fair value of fixed rate advances is estimated using rates currently available for advances with similar remaining maturities. The carrying value of variable rate advances approximates fair value.

Subordinated Debt

The fair value of the Company's subordinated debt is estimated using discounted cash flow analysis, based on current borrowing rates for similar types of debt instruments.

Accrued Interest Payable

The fair value of these financial instruments approximates carrying value.

Commitments

The fair value of commitments to extend credit are based on fees currently charged to enter into similar agreements with similar maturities and interest rates. The Company determined that the fair value of commitments was zero based on the contractual value of outstanding commitments at each of June 30, 2016 and December 31, 2015.

The following tables summarize the carrying value and estimated fair value of all financial assets and liabilities at June 30, 2016 and December 31, 2015.

| | Carrying Amount | June 30, 2016 Fair Value Measurements Using | | |
|---|-----------------|---|---|---|
| | | Quoted Prices In Active Market for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Cash and cash equivalents | \$ 70,008 | \$ 70,008 | \$ — | \$ — |
| Interest-bearing time deposits | 250 | 250 | — | — |
| Loans held-for-sale (best efforts pricing agreements) | 6,375 | — | 6,375 | — |
| Loans | 1,111,622 | — | — | 1,138,152 |
| Accrued interest receivable | 5,508 | 5,508 | — | — |
| Federal Home Loan Bank of Indianapolis stock | 8,595 | — | 8,595 | — |
| Deposits | 1,388,933 | 513,929 | — | 867,231 |
| Advances from Federal Home Loan Bank | 147,974 | — | 146,276 | — |
| Subordinated debt | 12,778 | — | 13,023 | — |
| Accrued interest payable | 138 | 138 | — | — |
| | | December 31, 2015 Fair Value Measurements Using | | |
| | Carrying Amount | Quoted Prices In Active Market for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Cash and cash equivalents | \$ 25,152 | \$ 25,152 | \$ — | \$ — |
| Interest-bearing time deposits | 1,000 | 1,000 | — | — |
| Loans held-for-sale (best efforts pricing agreements) | 12,453 | — | 12,453 | — |
| Loans | 953,859 | — | — | 967,303 |
| Accrued interest receivable | 4,105 | 4,105 | — | — |
| Federal Home Loan Bank of Indianapolis stock | 8,595 | — | 8,595 | — |
| Deposits | 956,054 | 472,481 | — | 478,360 |
| Advances from Federal Home Loan Bank | 190,957 | — | 188,126 | — |
| Subordinated debt | 12,724 | — | 13,212 | — |

| | | | | |
|--------------------------|-----|-----|---|---|
| Accrued interest payable | 117 | 117 | — | — |
|--------------------------|-----|-----|---|---|

Note 10: Mortgage Banking Activities

The Company's residential real estate lending business originates mortgage loans for customers and sells a majority of the originated loans into the secondary market. The Company hedges its mortgage banking pipeline by entering into forward contracts for the future delivery of mortgage loans to third party investors and entering into interest rate lock commitments with potential borrowers to fund specific mortgage loans that will be sold into the secondary market. To facilitate the hedging of the loans, the Company has elected the fair value option for loans originated and intended for sale in the secondary market under mandatory pricing agreements. Changes in the fair value of loans held-for-sale, interest rate lock commitments and forward contracts are recorded in the mortgage banking activities line item within noninterest income. Refer to Note 11 for further information on derivative financial instruments.

During the three months ended June 30, 2016 and 2015, the Company originated mortgage loans held-for-sale of \$151.1 million and \$143.8 million, respectively, and sold \$139.6 million and \$143.3 million of mortgage loans, respectively, into the secondary market. During the six months ended June 30, 2016 and 2015, the Company originated mortgage loans held-for-sale of \$259.1 million and \$277.9 million, respectively, and sold \$256.6 million and \$287.1 million of mortgage loans, respectively, into the secondary market.

The following table provides the components of income from mortgage banking activities for the three and six months ended June 30, 2016 and 2015.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|---------|------------------------------|---------|
| | 2016 | 2015 | 2016 | 2015 |
| Gain on loans sold | \$2,896 | \$2,531 | \$4,496 | \$4,845 |
| Gain (loss) resulting from the change in fair value of loans held-for-sale | 632 | (669) | 986 | (492) |
| Gain (loss) resulting from the change in fair value of derivatives | (233) | 352 | 67 | 747 |
| Net revenue from mortgage banking activities | \$3,295 | \$2,214 | \$5,549 | \$5,100 |

Note 11: Derivative Financial Instruments

The Company uses derivative financial instruments to help manage exposure to interest rate risk and the effects that changes in interest rates may have on net income and the fair value of assets and liabilities. The Company enters into forward contracts for the future delivery of mortgage loans to third party investors and enters into IRLCs with potential borrowers to fund specific mortgage loans that will be sold into the secondary market. The forward contracts are entered into in order to economically hedge the effect of changes in interest rates resulting from the Company's commitment to fund the loans.

Each of these items are considered derivatives, but are not designated as accounting hedges, and are recorded at fair value with changes in fair value reflected in noninterest income on the condensed consolidated statements of income. The fair value of derivative instruments with a positive fair value are reported in accrued income and other assets in the condensed consolidated balance sheets while derivative instruments with a negative fair value are reported in accrued expenses and other liabilities in the condensed consolidated balance sheets.

The following table presents the notional amount and fair value of IRLCs and forward contracts utilized by the Company at June 30, 2016 and December 31, 2015.

| | June 30, 2016 | | December 31, 2015 | |
|-------------------|-------------------------|---------------|-------------------------|---------------|
| | Notional Fair Amount | Fair Value | Notional Fair Amount | Fair Value |
| Asset Derivatives | | | | |

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Derivatives not designated as hedging instruments

| | | | | |
|-------------------|----------|---------|----------|-------|
| IRLCs | \$60,328 | \$1,724 | \$28,444 | \$582 |
| Forward contracts | — | — | 42,743 | 30 |

Liability Derivatives

Derivatives not designated as hedging instruments

| | | | | |
|-------------------|--------|----------|---|---|
| Forward contracts | 98,252 | (1,045) | — | — |
|-------------------|--------|----------|---|---|

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Fair values of derivative financial instruments were estimated using changes in mortgage interest rates from the date the Company entered into the IRLC and the balance sheet date. The following table summarizes the periodic changes in the fair value of the derivative financial instruments on the condensed consolidated statements of income for the three and six month periods ended June 30, 2016 and 2015.

| | Amount of gain / (loss) recognized in the three months ended | | Amount of gain / (loss) recognized in the six months ended | |
|---|--|---------------|--|---------------|
| | June 30, 2016 | June 30, 2015 | June 30, 2016 | June 30, 2015 |
| Asset Derivatives | | | | |
| Derivatives not designated as hedging instruments | | | | |
| IRLCs | \$ 441 | \$ (290) | \$ 1,142 | \$ 102 |
| Forward contracts | — | 642 | — | 645 |
| Liability Derivatives | | | | |
| Derivatives not designated as hedging instruments | | | | |
| Forward contracts | (674) | — | (1,075) | — |

Note 12: Recent Accounting Pronouncements

Accounting Standards Update 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (June 2016)

The main objective of this Update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this Update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates.

The amendments affect entities holding financial assets that are not accounted for at fair value through net income. The amendments affect loans, debt securities, off-balance-sheet credit exposures, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments in this Update affect an entity to varying degrees depending on the credit quality of the assets held by the entity, their duration, and how the entity applies current GAAP. There is diversity in practice in applying the incurred loss methodology, which means that before transition some entities may be more aligned, under current GAAP, than others to the new measure of expected credit losses. The following describes the main provisions of this Update.

- **Assets Measured at Amortized Cost:** The amendments in this Update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The income statement reflects the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. An entity must use judgment in determining

the relevant information and estimation methods that are appropriate in its circumstances.

- Available-for-Sale Debt Securities: Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. Available-for-sale accounting recognizes that value may be realized either through collection of contractual cash flows or through sale of the security. Therefore, the amendments limit the amount of the allowance for credit losses to the amount by which fair value is below amortized cost because the classification as available for sale is premised on an investment strategy that recognizes that the investment could be sold at fair value, if cash collection would result in the realization of an amount less than fair value.

For public business entities that are U.S. Securities and Exchange Commission filers, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. All entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. An entity will apply the amendments in this Update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. The effect of a prospective transition approach is to maintain the same amortized cost basis before and after the effective date of this Update.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this report. This discussion and analysis includes certain forward-looking statements that involve risks, uncertainties, and assumptions. You should review the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2015 for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by such forward-looking statements. See also "Cautionary Note Regarding Forward-Looking Statements" at the beginning of this report.

Overview

First Internet Bancorp ("we," "our," "us," or the "Company") is a bank holding company that conducts its business activities through its wholly-owned subsidiary, First Internet Bank of Indiana, an Indiana chartered bank (the "Bank"). The Bank was the first state-chartered, Federal Deposit Insurance Corporation ("FDIC") insured Internet bank and commenced banking operations in 1999. The Company was incorporated under the laws of the State of Indiana on September 15, 2005. On March 21, 2006, we consummated a plan of exchange by which we acquired all of the outstanding shares of the Bank.

We offer a full complement of products and services on a nationwide basis. We conduct our deposit operations primarily over the Internet and have no traditional branch offices. We have diversified our operations by adding commercial real estate ("CRE") lending, including nationwide single tenant lease financing, and commercial and industrial ("C&I") lending, including business banking/treasury management services to meet the needs of high-quality commercial borrowers and depositors.

Our business model differs from that of a typical community bank. We do not have a conventional brick and mortar branch system; but instead operate through our scalable Internet banking platform. The market area for our residential real estate lending, consumer lending, and deposit gathering activities is the entire United States. We also offer single tenant lease financing on a nationwide basis. Our other commercial banking activities, including CRE and C&I loans, corporate credit cards, and corporate treasury management services, are offered by our commercial banking team to businesses primarily within Central Indiana, Phoenix, Arizona, and adjacent markets. We have no significant customer concentrations within our loan portfolio.

Results of Operations

The following table provides a summary of the Company's financial performance for the five most recent quarters and six months ended June 30, 2016 and 2015.

| (dollars in thousands except for share and per share data) | Three Months Ended | | | | | Six Months Ended | | |
|--|--------------------|----------------|-------------------|--------------------|---------------|------------------|---------------|---|
| | June 30, 2016 | March 31, 2016 | December 31, 2015 | September 30, 2015 | June 30, 2015 | June 30, 2016 | June 30, 2015 | |
| Income Statement Summary: | | | | | | | | |
| Net interest income | \$9,306 | \$9,141 | \$ 8,568 | \$ 7,839 | \$7,572 | \$18,447 | \$14,346 | |
| Provision for loan losses | 924 | 946 | 746 | 454 | 304 | 1,870 | 746 | |
| Noninterest income | 3,748 | 2,540 | 2,143 | 2,374 | 2,476 | 6,288 | 5,624 | |
| Noninterest expense | 7,875 | 7,005 | 6,492 | 6,207 | 6,327 | 14,880 | 12,584 | |
| Income tax provision | 1,421 | 1,298 | 1,195 | 1,229 | 1,152 | 2,719 | 2,312 | |
| Net income | \$2,834 | \$2,432 | \$ 2,278 | \$ 2,323 | \$2,265 | \$5,266 | \$4,328 | |
| Per Share Data: | | | | | | | | |
| Earnings per share - basic | \$0.57 | \$0.54 | \$ 0.50 | \$ 0.51 | \$0.50 | \$1.11 | \$0.96 | |
| Earnings per share - diluted | \$0.57 | \$0.53 | \$ 0.50 | \$ 0.51 | \$0.50 | \$1.10 | \$0.95 | |
| Dividends declared per share | \$0.06 | \$0.06 | \$ 0.06 | \$ 0.06 | \$0.06 | \$0.12 | \$0.12 | |
| Book value per common share | \$24.52 | \$23.98 | \$ 23.28 | \$ 22.95 | \$22.28 | \$24.52 | \$22.28 | |
| Tangible book value per common share ¹ | \$23.67 | \$22.93 | \$ 22.24 | \$ 21.90 | \$21.23 | \$23.67 | \$21.23 | |
| Common shares outstanding | 5,533,050 | 4,497,284 | 4,481,347 | 4,484,513 | 4,484,513 | 5,533,050 | 4,484,513 | |
| Average common shares outstanding: | | | | | | | | |
| Basic | 4,972,759 | 4,541,728 | 4,534,910 | 4,532,360 | 4,529,823 | 4,757,243 | 4,523,336 | |
| Diluted | 4,992,025 | 4,575,555 | 4,580,353 | 4,574,455 | 4,550,034 | 4,782,700 | 4,536,736 | |
| Performance Ratios: | | | | | | | | |
| Return on average assets | 0.71 | % 0.72 | % 0.74 | % 0.82 | % 0.84 | % 0.72 | % 0.84 | % |
| Return on average shareholders' equity | 9.67 | % 9.20 | % 8.73 | % 9.14 | % 9.15 | % 9.45 | % 8.85 | % |
| Return on average tangible common equity ¹ | 10.07 | % 9.63 | % 9.14 | % 9.58 | % 9.60 | % 9.86 | % 9.29 | % |
| Net interest margin | 2.39 | % 2.78 | % 2.85 | % 2.84 | % 2.87 | % 2.57 | % 2.86 | % |
| Capital Ratios: | | | | | | | | |
| Tangible common equity to tangible assets ¹ | 7.72 | % 6.77 | % 7.88 | % 8.46 | % 8.66 | % 7.72 | % 8.66 | % |
| Tier 1 leverage ratio | 8.08 | % 7.65 | % 8.28 | % 8.81 | % 8.93 | % 8.08 | % 8.93 | % |
| Common equity tier 1 capital ratio | 10.66 | % 9.38 | % 10.11 | % 10.74 | % 11.12 | % 10.66 | % 11.12 | % |
| Tier 1 capital ratio | 10.66 | % 9.38 | % 10.11 | % 10.74 | % 11.12 | % 10.66 | % 11.12 | % |
| Total risk-based capital ratio | 12.54 | % 11.38 | % 12.25 | % 11.90 | % 12.28 | % 12.54 | % 12.28 | % |

¹ This information represents a non-GAAP financial measure. See the "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of these measures to their most directly comparable GAAP measures.

During the second quarter 2016, net income was \$2.8 million, or \$0.57 per diluted share, compared to second quarter 2015 net income of \$2.3 million, or \$0.50 per diluted share, resulting in an increase in net income of \$0.6 million, or 25.1%. During the six months ended June 30, 2016, net income was \$5.3 million, or \$1.10 per diluted share, compared to the six months ended June 30, 2015 net income of \$4.3 million, or \$0.95 per diluted share, resulting in an increase in net income of \$0.9 million, or 21.7%.

The increase in net income in the second quarter 2016 compared to the second quarter 2015 was primarily due to a \$1.7 million, or 22.9%, increase in net interest income and a \$1.3 million, or 51.4%, increase in noninterest income, partially offset by a \$1.5 million, or 24.5%, increase in noninterest expense, a \$0.6 million, or 203.9%, increase in provision for loan losses and a \$0.3 million, or 23.4%, increase in income tax expense.

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The increase in net income in the six months ended June 30, 2016 compared to the six months ended June 30, 2015 was primarily due to a \$4.1 million, or 28.6%, increase in net interest income and a \$0.7 million, or 11.8%, increase in noninterest income, partially offset by a \$2.3 million, or 18.2%, increase in noninterest expense, a \$1.1 million, or 150.7%, increase in provision for loan losses and a \$0.4 million, or 17.6%, increase in income tax expense.

During the second quarter 2016, return on average assets and return on average shareholders' equity were 0.71% and 9.67%, respectively, compared to 0.84% and 9.15%, respectively, for the second quarter 2015. During the six months ended June 30, 2016, return on average assets and return on average shareholders' equity were 0.72% and 9.45%, respectively, compared to 0.84% and 8.85%, respectively, for the six months ended June 30, 2015.

Consolidated Average Balance Sheets and Net Interest Income Analyses

For the periods presented, the following tables provide the average balances of interest-earning assets and interest-bearing liabilities and the related yields and cost of funds. The tables do not reflect any effect of income taxes. Balances are based on the average of daily balances. Nonaccrual loans are included in average loan balances.

| (dollars in thousands) | Three Months Ended | | | | | |
|--|--------------------|------------|-----------------|------------|-----------------|------------|
| | June 30, 2016 | | March 31, 2016 | | June 30, 2015 | |
| | Average Balance | Yield/Cost | Average Balance | Yield/Cost | Average Balance | Yield/Cost |
| Assets | | | | | | |
| Interest-earning assets | | | | | | |
| Loans, including loans held-for-sale | \$1,110,282 | 4.22 % | \$1,020,168 | 4.41 % | \$825,620 | 4.39 % |
| Securities - taxable | 307,336 | 2.29 % | 202,898 | 2.32 % | 174,057 | 2.18 % |
| Securities - non-taxable | 51,162 | 2.89 % | 22,179 | 2.99 % | 7,807 | 3.03 % |
| Other earning assets | 97,774 | 0.80 % | 78,291 | 0.87 % | 49,001 | 0.68 % |
| Total interest-earning assets | 1,566,554 | 3.59 % | 1,323,536 | 3.86 % | 1,056,485 | 3.85 % |
| Allowance for loan losses | (9,472) | | (8,655) | | (6,545) | |
| Noninterest-earning assets | 39,422 | | 37,951 | | 35,178 | |
| Total assets | \$1,596,504 | | \$1,352,832 | | \$1,085,118 | |
| Liabilities | | | | | | |
| Interest-bearing liabilities | | | | | | |
| Interest-bearing demand deposits | \$83,712 | 0.55 % | \$81,338 | 0.55 % | \$76,095 | 0.55 % |
| Regular savings accounts | 28,023 | 0.57 % | 25,021 | 0.58 % | 23,873 | 0.57 % |
| Money market accounts | 363,767 | 0.71 % | 350,809 | 0.71 % | 282,015 | 0.72 % |
| Certificates and brokered deposits | 809,450 | 1.56 % | 575,976 | 1.48 % | 440,752 | 1.36 % |
| Total interest-bearing deposits | 1,284,952 | 1.23 % | 1,033,144 | 1.12 % | 822,735 | 1.04 % |
| Other borrowed funds | 161,127 | 1.83 % | 185,618 | 1.44 % | 137,421 | 1.23 % |
| Total interest-bearing liabilities | 1,446,079 | 1.30 % | 1,218,762 | 1.17 % | 960,156 | 1.07 % |
| Noninterest-bearing deposits | 27,687 | | 22,899 | | 20,697 | |
| Other noninterest-bearing liabilities | 4,825 | | 4,893 | | 4,932 | |
| Total liabilities | 1,478,591 | | 1,246,554 | | 985,785 | |
| Shareholders' equity | 117,913 | | 106,278 | | 99,333 | |
| Total liabilities and shareholders' equity | \$1,596,504 | | \$1,352,832 | | \$1,085,118 | |
| Interest rate spread ¹ | | 2.29 % | | 2.69 % | | 2.78 % |
| Net interest margin ² | | 2.39 % | | 2.78 % | | 2.87 % |

¹ Yield on total interest-earning assets minus cost of total interest-bearing liabilities

² Net interest income divided by total interest-earning assets (annualized)

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| (dollars in thousands) | Six Months Ended | | | | |
|--|--------------------|------------|--------------------|------------|--|
| | June 30, 2016 | | June 30, 2015 | | |
| | Average Balance | Yield/Cost | Average Balance | Yield/Cost | |
| Assets | | | | | |
| Interest-earning assets | | | | | |
| Loans, including loans held-for-sale | \$1,065,225 | 4.31 % | \$803,086 | 4.38 % | |
| Securities - taxable | 255,116 | 2.30 % | 159,729 | 2.10 % | |
| Securities - non-taxable | 36,671 | 2.92 % | 3,925 | 3.03 % | |
| Other earning assets | 88,033 | 0.83 % | 45,342 | 0.70 % | |
| Total interest-earning assets | 1,445,045 | 3.71 % | 1,012,082 | 3.85 % | |
| Allowance for loan losses | (9,063) | | (6,215) | | |
| Noninterest-earning assets | 38,686 | | 34,864 | | |
| Total assets | \$1,474,668 | | \$1,040,731 | | |
| Liabilities | | | | | |
| Interest-bearing liabilities | | | | | |
| Interest-bearing demand deposits | \$82,525 | 0.55 % | \$75,752 | 0.55 % | |
| Regular savings accounts | 26,522 | 0.58 % | 22,991 | 0.58 % | |
| Money market accounts | 357,288 | 0.71 % | 278,185 | 0.72 % | |
| Certificates and brokered deposits | 692,713 | 1.53 % | 415,566 | 1.37 % | |
| Total interest-bearing deposits | 1,159,048 | 1.18 % | 792,494 | 1.04 % | |
| Other borrowed funds | 173,372 | 1.62 % | 123,680 | 1.44 % | |
| Total interest-bearing liabilities | 1,332,420 | 1.24 % | 916,174 | 1.09 % | |
| Noninterest-bearing deposits | 25,293 | | 21,477 | | |
| Other noninterest-bearing liabilities | 4,859 | | 4,488 | | |
| Total liabilities | 1,362,572 | | 942,139 | | |
| Shareholders' equity | 112,096 | | 98,592 | | |
| Total liabilities and shareholders' equity | \$1,474,668 | | \$1,040,731 | | |
| Interest rate spread ¹ | | 2.47 % | | 2.76 % | |
| Net interest margin ² | | 2.57 % | | 2.86 % | |

¹ Yield on total interest-earning assets minus cost of total interest-bearing liabilities

² Net interest income divided by total interest-earning assets (annualized)

Rate/Volume Analysis

The following table illustrates the impact of changes in the volume of interest-earning assets and interest-bearing liabilities and interest rates on net interest income for the periods indicated. The change in interest not due solely to volume or rate has been allocated in proportion to the absolute dollar amounts of the change in each.

| (dollars in thousands) | Rate/Volume Analysis of Net Interest Income | | | | | | | | |
|--|---|------------------|--------------|------------------------|------------------|----------------|----------------------------|------------------|----------------|
| | Three Months Ended | | | Three Months Ended | | | Six Months Ended | | |
| | June 30, 2016 vs. March | | | June 30, 2016 vs. June | | | June 30, 2016 vs. June 30, | | |
| | 31, 2016 | | | 30, 2015 | | | 2015 | | |
| | Due to Changes in | | | Due to Changes in | | | Due to Changes in | | |
| | Volume | Rate | Net | Volume | Rate | Net | Volume | Rate | Net |
| Interest income | | | | | | | | | |
| Loans, including loans held-for-sale | \$2,923 | \$(2,451) | \$472 | \$4,878 | \$(2,260) | \$2,618 | \$6,236 | \$(819) | \$5,417 |
| Securities – taxable | 683 | (105) | 578 | 753 | 49 | 802 | 1,077 | 172 | 1,249 |
| Securities – non-taxable | 241 | (38) | 203 | 328 | (19) | 309 | 480 | (6) | 474 |
| Other earning assets | 102 | (77) | 25 | 95 | 17 | 112 | 173 | 34 | 207 |
| Total | 3,949 | (2,671) | 1,278 | 6,054 | (2,213) | 3,841 | 7,966 | (619) | 7,347 |
| Interest expense | | | | | | | | | |
| Interest-bearing deposits | 743 | 299 | 1,042 | 1,353 | 440 | 1,793 | 2,113 | 615 | 2,728 |
| Other borrowed funds | (451) | 522 | 71 | 82 | 232 | 314 | 395 | 123 | 518 |
| Total | 292 | 821 | 1,113 | 1,435 | 672 | 2,107 | 2,508 | 738 | 3,246 |
| Increase in net interest income | \$3,657 | \$(3,492) | \$165 | \$4,619 | \$(2,885) | \$1,734 | \$5,458 | \$(1,357) | \$4,101 |

Net interest income for the second quarter 2016 was \$9.3 million, increasing \$1.7 million, or 22.9%, compared to \$7.6 million for the second quarter 2015. The increase in net interest income was the result of a \$3.8 million, or 37.9%, increase in total interest income to \$14.0 million for the second quarter 2016 from \$10.1 million for the second quarter 2015. The increase in total interest income was partially offset by a \$2.1 million, or 82.4%, increase in total interest expense to \$4.7 million for the second quarter 2016 from \$2.6 million for the second quarter 2015.

The increase in total interest income was due primarily to an increase in interest earned on loans resulting from an increase of \$284.7 million, or 34.5%, in the average balance of loans, including loans held-for-sale, as well as an increase in interest earned on securities resulting from an increase of \$176.6 million, or 97.1%, in the average balance of securities for the second quarter 2016 compared to the second quarter 2015. The increase in total interest income was also due to a 16 basis point (“bp”) increase in the yield earned on the securities portfolio, partially offset by a 17 bp decline in the yield earned on loans, including loans held-for-sale.

The increase in total interest expense was driven primarily by an increase in interest expense related to interest-bearing deposits as a result of a \$462.2 million, or 56.2%, increase in the average balance of interest-bearing deposits for the second quarter 2016 compared to the second quarter 2015, as well as the increase in the cost of funds related to interest-bearing deposits of 19 bps. The increase in the cost of interest-bearing deposits was primarily due to a 20 bps increase in the cost of certificates and brokered deposits as new certificates of deposits production in 2016 was predominately in longer duration products with higher costs of funds. Interest expense related to other borrowed funds also contributed to the increase in total interest expense due to a \$23.7 million, or 17.3%, increase in the average balance of other borrowed funds for the second quarter 2016 compared to the second quarter 2015 as well as an increase of 60 bps in the cost of other borrowed funds. The increase in the average balance of other borrowed funds was primarily due to the Company’s issuance of subordinated debt in the fourth quarter 2015 as well as an increase in

the cost and average balance of Federal Home Loan Bank advances compared to the second quarter 2015.

Net interest margin (“NIM”) was 2.39% for the second quarter 2016 compared to 2.87% for the second quarter 2015. The decline in NIM for the second quarter 2016 compared to the second quarter 2015 was driven primarily by the increase of 19 bps in the cost of interest-bearing deposits as well as the decline of 17 bps in the yield earned on loans, including loans held-for-sale, driven primarily by a decrease in prepayment fees related to commercial real estate loans. Additionally, the Company carried excess liquidity during the second quarter 2016 as cash inflows generated from year-to-date deposit activity and proceeds from the equity offerings outpaced loan growth and investment purchases, which also contributed to the decline in NIM compared to the second quarter 2015.

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Net interest income for the six months ended June 30, 2016 was \$18.4 million, increasing \$4.1 million, or 28.6%, compared to \$14.3 million for the six months ended June 30, 2015. The increase in net interest income was the result of a \$7.3 million, or 38.0%, increase in total interest income to \$26.7 million for the six months ended June 30, 2016 from \$19.3 million for the six months ended June 30, 2015. The increase in total interest income was partially offset by a \$3.2 million, or 65.3%, increase in total interest expense to \$8.2 million for the six months ended June 30, 2016 from \$5.0 million for the six months ended June 30, 2015.

The increase in total interest income was due primarily to an increase in interest earned on loans resulting from an increase of \$262.1 million, or 32.6%, in the average balance of loans, including loans held-for-sale, as well as an increase in interest earned on securities resulting from an increase of \$128.1 million, or 78.3%, in the average balance of securities for the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The increase in total interest income was also due to a 25 bps increase in the yield earned on the securities portfolio, partially offset by a 7 bps decline in the yield earned on loans, including loans held-for-sale.

The increase in total interest expense was driven primarily by an increase in interest expense related to interest-bearing deposits as a result of a \$366.6 million, or 46.3%, increase in the average balance of interest-bearing deposits for the six months ended June 30, 2016 compared to the six months ended June 30, 2015, as well as the increase in the cost of funds relating to interest-bearing deposits of 14 bps. The increase in the cost of interest-bearing deposits was primarily due to a 16 bps increase in the cost of certificates and brokered deposits as new certificates of deposits production in the six months ended June 30, 2016 was predominately in longer duration products with higher costs of funds. Interest expense related to other borrowed funds also contributed to the increase in total interest expense due to a \$49.7 million, or 40.2%, increase in the average balance of other borrowed funds for the six months ended June 30, 2016 compared to the six months ended June 30, 2015, as well as an increase of 18 bps in the cost of other borrowed funds. The increase in the average balance of other borrowed funds was primarily due to the Company's issuance of subordinated debt in the fourth quarter 2015 as well as the increase in the average balance of Federal Home Loan Bank advances compared to the six months ended June 30, 2015.

NIM was 2.57% for the six months ended June 30, 2016 compared to 2.86% for the six months ended June 30, 2015. The decline in NIM for the six months ended June 30, 2016 compared to the six months ended June 30, 2015, was driven primarily by the increase of 14 bps in the cost of interest-bearing deposits as well as the decline of 7 bps in the yield earned on loans, including loans held-for-sale, driven primarily by a decrease in prepayment fees related to commercial real estate loans. The decline in NIM was partially offset by an increase of 25 bps in the yield earned on the securities portfolio.

Noninterest Income

The following table presents noninterest income for the five most recent quarters and the six months ended June 30, 2016 and 2015.

| (dollars in thousands) | Three Months Ended | | | | Six Months Ended | | |
|--------------------------------|--------------------|----------------|-------------------|--------------------|------------------|---------------|---------------|
| | June 30, 2016 | March 31, 2016 | December 31, 2015 | September 30, 2015 | June 30, 2016 | June 30, 2016 | June 30, 2015 |
| Service charges and fees | \$215 | \$200 | \$193 | \$202 | \$193 | \$415 | \$369 |
| Mortgage banking activities | 3,295 | 2,254 | 1,805 | 2,095 | 2,214 | 5,549 | 5,100 |
| Gain on sale of securities | 177 | — | — | — | — | 177 | — |
| (Loss) gain on asset disposals | (48) | (16) | 40 | (27) | (33) | (64) | (47) |
| Other | 109 | 102 | 105 | 104 | 102 | 211 | 202 |
| Total noninterest income | \$3,748 | \$2,540 | \$2,143 | \$2,374 | \$2,476 | \$6,288 | \$5,624 |

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During the second quarter 2016, noninterest income was \$3.7 million, representing an increase of \$1.3 million, or 51.4%, compared to \$2.5 million for the second quarter 2015. The increase in noninterest income was primarily driven by an increase of \$1.1 million, or 48.8%, in mortgage banking activities resulting primarily from higher origination volumes and an improvement in gain on sale margin, as well as a \$0.2 million increase from the gain on sale of securities.

During the six months ended June 30, 2016, noninterest income was \$6.3 million, representing an increase of \$0.7 million, or 11.8%, compared to \$5.6 million for the six months ended June 30, 2015. The increase in noninterest income was primarily driven by an increase of \$0.4 million, or 8.8%, in mortgage banking activities resulting primarily from higher origination volumes and an improvement in gain on sale margin, as well as a \$0.2 million increase from the gain on sale of securities.

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Noninterest Expense

The following table presents noninterest expense for the five most recent quarters and the six months ended June 30, 2016 and 2015.

| (dollars in thousands) | Three Months Ended | | | | Six Months Ended | | |
|---------------------------------------|--------------------|----------------|-------------------|--------------------|------------------|---------------|---------------|
| | June 30, 2016 | March 31, 2016 | December 31, 2015 | September 30, 2015 | June 30, 2015 | June 30, 2016 | June 30, 2015 |
| Salaries and employee benefits | \$4,329 | \$ 3,898 | \$ 3,460 | \$ 3,446 | \$ 3,787 | \$8,227 | \$7,365 |
| Marketing, advertising, and promotion | 434 | 464 | 426 | 544 | 334 | 898 | 786 |
| Consulting and professional services | 895 | 638 | 674 | 544 | 564 | 1,533 | 1,156 |
| Data processing | 275 | 274 | 287 | 248 | 233 | 549 | 481 |
| Loan expenses | 200 | 184 | 172 | 97 | 181 | 384 | 362 |
| Premises and equipment | 963 | 798 | 759 | 676 | 691 | 1,761 | 1,333 |
| Deposit insurance premium | 215 | 180 | 170 | 163 | 160 | 395 | 310 |
| Other | 564 | 569 | 544 | 489 | 377 | 1,133 | 791 |
| Total noninterest expense | \$7,875 | \$ 7,005 | \$ 6,492 | \$ 6,207 | \$ 6,327 | \$14,880 | \$12,584 |

Noninterest expense for the second quarter 2016 was \$7.9 million, compared to \$6.3 million for the second quarter 2015. The increase of \$1.5 million, or 24.5%, compared to the second quarter 2015 was primarily due to an increase of \$0.5 million in salaries and employee benefits, an increase of \$0.3 million in consulting and professional services and an increase of \$0.3 million in premises and equipment. The increase in salaries and employee benefits resulted from higher incentive compensation related to increased mortgage production and personnel growth. The increase in consulting and professional fees was due to higher legal fees incurred in the normal course of business commensurate with the Company's growth and certain consulting projects that occurred during the second quarter 2016. The increase in premises and equipment was due to certain expenses associated with the Company exiting its former headquarters location, as well as the Company's build out of its corporate headquarters facility and further investments in technology.

Noninterest expense for the six months ended June 30, 2016 was \$14.9 million, compared to \$12.6 million for the six months ended June 30, 2015. The increase of \$2.3 million, or 18.2%, compared to the six months ended June 30, 2015 was primarily due to an increase of \$0.9 million in salaries and employee benefits, an increase of \$0.4 million in premises and equipment, an increase of \$0.4 million in consulting and professional services and an increase of \$0.3 million in other expenses. The increase in salaries and employee benefits resulted primarily from personnel growth. The increase in premises and equipment was partially due to certain expenses associated with the Company exiting its former headquarters location, as well as the Company's build out of its corporate headquarters facility and further investments in technology. The increase in consulting and professional fees was due to higher legal fees incurred in the normal course of business commensurate with the Company's growth and certain consulting projects that occurred during the 2016 period. The increase in other expenses were comprised of varying expenses, none of which were deemed significant.

Financial Condition

The following table presents summary balance sheet data for the last five quarters.

| (dollars in thousands) | June 30, 2016 | March 31, 2016 | December 31, 2015 | September 30, 2015 | June 30, 2015 |
|------------------------|---------------|----------------|-------------------|--------------------|---------------|
| Balance Sheet Data: | | | | | |
| Total assets | \$1,702,468 | \$1,527,719 | \$1,269,870 | \$1,166,170 | \$1,104,645 |
| Loans | 1,111,622 | 1,040,683 | 953,859 | 876,578 | 814,243 |

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| | | | | | |
|-------------------------------|-----------|-----------|---------|---------|---------|
| Securities available-for-sale | 433,806 | 315,311 | 213,698 | 202,565 | 190,767 |
| Loans held-for-sale | 44,503 | 29,491 | 36,518 | 27,773 | 29,872 |
| Noninterest-bearing deposits | 28,066 | 28,945 | 23,700 | 22,338 | 20,994 |
| Interest-bearing deposits | 1,360,867 | 1,214,233 | 932,354 | 877,412 | 835,509 |
| Total deposits | 1,388,933 | 1,243,178 | 956,054 | 899,750 | 856,503 |
| Total shareholders' equity | 135,679 | 107,830 | 104,330 | 102,912 | 99,908 |

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Total assets were \$1.7 billion at June 30, 2016, compared to \$1.3 billion at December 31, 2015, representing an increase of \$432.6 million, or 34.1%. The increase in total assets was due primarily to increases of \$220.1 million, or 103.0%, in securities available-for-sale, \$157.8 million, or 16.5%, in loans and \$44.9 million, or 178.3%, in cash and cash equivalents.

Loan Portfolio Analysis

The following table provides a detailed listing of the Company's loan portfolio for the last five quarters.

| (dollars in thousands) | June 30, 2016 | March 31, 2016 | December 31, 2015 | September 30, 2015 | June 30, 2015 | | | | | |
|---|---------------|----------------|-------------------|--------------------|---------------|--------|-----------|--------|-----------|--------|
| Commercial loans | | | | | | | | | | |
| Commercial and industrial | \$111,130 | 10.0 % | \$106,431 | 10.2 % | \$102,000 | 10.7 % | \$89,762 | 10.2 % | \$89,316 | 11.0 % |
| Owner-occupied commercial real estate | 46,543 | 4.2 % | 47,010 | 4.5 % | 44,462 | 4.7 % | 42,117 | 4.8 % | 39,405 | 4.8 % |
| Investor commercial real estate | 12,976 | 1.2 % | 14,756 | 1.4 % | 16,184 | 1.7 % | 17,483 | 2.0 % | 20,163 | 2.5 % |
| Construction | 53,368 | 4.8 % | 52,591 | 5.1 % | 45,898 | 4.8 % | 30,196 | 3.4 % | 20,155 | 2.5 % |
| Single tenant lease financing | 500,937 | 45.1 % | 445,534 | 42.8 % | 374,344 | 39.2 % | 329,149 | 37.6 % | 279,891 | 34.4 % |
| Total commercial loans | 724,954 | 65.3 % | 666,322 | 64.0 % | 582,888 | 61.1 % | 508,707 | 58.0 % | 448,930 | 55.2 % |
| Consumer loans | | | | | | | | | | |
| Residential mortgage | 202,107 | 18.2 % | 208,636 | 20.1 % | 214,559 | 22.5 % | 209,507 | 23.9 % | 207,703 | 25.5 % |
| Home equity | 38,981 | 3.5 % | 40,000 | 3.8 % | 43,279 | 4.5 % | 47,319 | 5.4 % | 49,662 | 6.1 % |
| Other consumer | 141,756 | 12.7 % | 121,323 | 11.7 % | 108,312 | 11.4 % | 106,187 | 12.1 % | 103,157 | 12.6 % |
| Total consumer loans | 382,844 | 34.4 % | 369,959 | 35.6 % | 366,150 | 38.4 % | 363,013 | 41.4 % | 360,522 | 44.2 % |
| Deferred loan origination costs and premiums and discounts on purchased loans | 3,824 | 0.3 % | 4,402 | 0.4 % | 4,821 | 0.5 % | 4,858 | 0.6 % | 4,791 | 0.6 % |
| Total loans | 1,111,622 | 100.0% | 1,040,683 | 100.0% | 953,859 | 100.0% | 876,578 | 100.0% | 814,243 | 100.0% |
| Allowance for loan losses | (10,016) | | (9,220) | | (8,351) | | (7,671) | | (7,073) | |
| Net loans | \$1,101,606 | | \$1,031,463 | | \$945,508 | | \$868,907 | | \$807,170 | |

Total loans as of June 30, 2016 were \$1.1 billion, increasing \$157.8 million, or 16.5%, compared to \$953.9 million as of December 31, 2015.

Total commercial loans increased \$142.1 million, or 24.4%, as of June 30, 2016, compared to December 31, 2015, due to increases of \$126.6 million, or 33.8%, in single tenant lease financing, \$9.1 million, or 9.0%, in commercial

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and industrial, \$7.5 million, or 16.3%, in construction and \$2.1 million, or 4.7%, in owner-occupied commercial real estate. These increases were partially offset by a decline of \$3.2 million, or 19.8%, in investor commercial real estate.

Total consumer loans increased \$16.7 million, or 4.6%, as of June 30, 2016, compared to December 31, 2015, due primarily to an increase of \$33.4 million, or 30.9%, in other consumer loans. This increase was partially offset by decreases of \$12.5 million, or 5.8%, in residential mortgages and \$4.3 million, or 9.9%, in home equity loans.

Asset Quality

Nonperforming loans are comprised of total nonaccrual loans and loans 90 days past due and accruing. Nonperforming assets include nonperforming loans, other real estate owned and other nonperforming assets, which consist of repossessed assets. The following table provides a detailed listing of the Company's nonperforming assets for the last five quarters.

| (dollars in thousands) | June 30, 2016 | March 31, 2016 | December 31, 2015 | September 30, 2015 | June 30, 2015 | |
|--|------------------|-------------------|----------------------|-----------------------|------------------|---|
| Nonaccrual loans | | | | | | |
| Commercial loans: | | | | | | |
| Commercial and industrial | \$4,716 | \$— | \$— | \$— | \$— | |
| Total commercial loans | 4,716 | — | — | — | — | |
| Consumer loans: | | | | | | |
| Residential mortgage | 844 | 103 | 103 | 104 | 119 | |
| Other consumer | 74 | 69 | 64 | 92 | 69 | |
| Total consumer loans | 918 | 172 | 167 | 196 | 188 | |
| Total nonaccrual loans | 5,634 | 172 | 167 | 196 | 188 | |
| Past Due 90 days and accruing loans | | | | | | |
| Commercial loans: | | | | | | |
| Commercial and industrial | — | — | — | 10 | — | |
| Total commercial loans | — | — | — | 10 | — | |
| Consumer loans: | | | | | | |
| Residential mortgage | — | 195 | — | — | — | |
| Other consumer | 5 | — | — | — | — | |
| Total consumer loans | 5 | 195 | — | — | — | |
| Total past due 90 days and accruing loans | 5 | 195 | — | 10 | — | |
| Total nonperforming loans | 5,639 | 367 | 167 | 206 | 188 | |
| Other real estate owned | | | | | | |
| Investor commercial real estate | 4,488 | 4,488 | 4,488 | 4,488 | 4,488 | |
| Total other real estate owned | 4,488 | 4,488 | 4,488 | 4,488 | 4,488 | |
| Other nonperforming assets | 46 | 75 | 85 | 30 | 89 | |
| Total nonperforming assets | \$10,173 | \$4,930 | \$4,740 | \$4,724 | \$4,765 | |
| Total nonperforming loans to total loans | 0.51 | % 0.04 | % 0.02 | % 0.02 | % 0.02 | % |
| Total nonperforming assets to total assets | 0.60 | % 0.32 | % 0.37 | % 0.41 | % 0.43 | % |

Troubled Debt Restructurings

The following table provides a summary of troubled debt restructurings for the last five quarters.

| (dollars in thousands) | June 30, 2016 | March 31, 2016 | December 31, 2015 | September 30, 2015 | June 30, 2015 |
|---|------------------|-------------------|----------------------|-----------------------|------------------|
| Troubled debt restructurings – performing | \$1,082 | \$1,100 | \$1,115 | \$1,134 | \$1,150 |
| Total troubled debt restructurings | \$1,082 | \$1,100 | \$1,115 | \$1,134 | \$1,150 |

The increase of \$5.4 million, or 114.6%, in total nonperforming assets as of June 30, 2016 compared to December 31, 2015 was due primarily to an increase in nonaccrual loans. Total nonperforming loans increased \$5.5 million, or 3,276.6%, to \$5.6 million as of June 30, 2016 compared to \$0.2 million as of December 31, 2015. This increase was primarily driven by a \$4.7 million commercial and industrial loan and a \$0.8 million residential mortgage loan that were placed on nonaccrual status during the second quarter 2016. As a result, the ratio of nonperforming loans to total loans increased to 0.51% as of June 30, 2016 compared to 0.02% as of December 31, 2015 and the ratio of nonperforming assets to total assets increased to 0.60% as of June 30, 2016 compared to 0.37% as of December 31, 2015.

As of June 30, 2016 and December 31, 2015, the Company had one commercial property in other real estate owned with a carrying value of \$4.5 million. This property consists of two buildings which are residential units adjacent to a university campus. Improvements to the property have been made in collaboration with the university and the property continues to be occupied.

Allowance for Loan Losses

The following table provides a rollforward of the allowance for loan losses balance for the last five quarters and the six months ended June 30, 2016 and 2015.

| (dollars in thousands) | Three Months Ended | | | | | Six Months Ended | |
|---|--------------------|----------------|-------------------|--------------------|---------------|------------------|---------------|
| | June 30, 2016 | March 31, 2016 | December 31, 2015 | September 30, 2015 | June 30, 2015 | June 30, 2016 | June 30, 2015 |
| Balance, beginning of period | \$9,220 | \$8,351 | \$7,671 | \$7,073 | \$6,378 | \$8,351 | \$5,800 |
| Provision charged to expense | 924 | 946 | 746 | 454 | 304 | 1,870 | 746 |
| Losses charged off | (232) | (149) | (100) | (76) | (232) | (381) | (460) |
| Recoveries | 104 | 72 | 34 | 220 | 623 | 176 | 987 |
| Balance, end of period | \$10,016 | \$9,220 | \$8,351 | \$7,671 | \$7,073 | \$10,016 | \$7,073 |
| Net charge-offs (recoveries) to average loans | 0.05 % | 0.03 % | 0.03 % | (0.07)% | (0.20)% | 0.04 % | (0.14)% |

The allowance for loan losses was \$10.0 million as of June 30, 2016, compared to \$8.4 million as of December 31, 2015. The increase of \$1.7 million, or 19.9%, was due primarily to the continued growth in commercial loan balances as well as a commercial and industrial loan that was assigned a \$0.5 million specific allowance and placed on nonaccrual status. During the second quarter 2016, the Company recorded net charge-offs of \$0.1 million, compared to net recoveries of \$0.4 million during the second quarter 2015. During the six months ended June 30, 2016, the Company recorded net charge-offs of \$0.2 million, compared to net recoveries of \$0.5 million during six months ended June 30, 2015.

The allowance for loan losses as a percentage of total loans increased to 0.90% as of June 30, 2016, compared to 0.88% as of December 31, 2015. Due primarily to the increase in nonaccrual loans, the allowance for loan losses as a percentage of nonperforming loans decreased to 177.6% as of June 30, 2016, compared to 5,000.6% as of December 31, 2015.

Investment Securities

The following tables present the amortized cost and approximate fair value of our investment portfolio by security type for the last five quarters.

(dollars in thousands)

Amortized Cost

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| | June 30, 2016 | March 31, 2016 | December 31, 2015 | September 30, 2015 | June 30, 2015 |
|-------------------------------------|------------------|-------------------|----------------------|-----------------------|------------------|
| Securities available-for-sale | | | | | |
| U.S. Government-sponsored agencies | \$75,133 | \$ 60,511 | \$ 38,093 | \$ 36,006 | \$27,993 |
| Municipal securities | 78,594 | 35,016 | 21,091 | 15,213 | 15,219 |
| Mortgage-backed securities | 233,886 | 177,337 | 113,948 | 109,645 | 107,055 |
| Asset-backed securities | 19,457 | 19,451 | 19,444 | 19,438 | 19,430 |
| Corporate securities | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 |
| Other securities | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 |
| Total securities available-for-sale | \$430,070 | \$ 315,315 | \$ 215,576 | \$ 203,302 | \$192,697 |

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(dollars in thousands)

| Approximate Fair Value | June 30, 2016 | March 31, 2016 | December 31, 2015 | September 30, 2015 | June 30, 2015 |
|-------------------------------------|------------------|-------------------|----------------------|-----------------------|------------------|
| Securities available-for-sale | | | | | |
| U.S. Government-sponsored agencies | \$75,678 | \$60,792 | \$37,750 | \$35,624 | \$27,572 |
| Municipal securities | 80,798 | 35,639 | 21,469 | 15,224 | 14,779 |
| Mortgage-backed securities | 235,911 | 177,989 | 113,052 | 110,052 | 106,674 |
| Asset-backed securities | 19,332 | 18,892 | 19,361 | 19,423 | 19,452 |
| Corporate securities | 19,074 | 18,978 | 19,087 | 19,229 | 19,305 |
| Other securities | 3,013 | 3,021 | 2,979 | 3,013 | 2,985 |
| Total securities available-for-sale | \$433,806 | \$315,311 | \$213,698 | \$202,565 | \$190,767 |

The approximate fair value of investment securities available-for-sale increased \$220.1 million, or 103.0%, to \$433.8 million as of June 30, 2016 compared to \$213.7 million as of December 31, 2015. The increase was due primarily to increases of \$122.9 million in mortgage-backed securities, \$59.3 million in municipal securities and \$37.9 million in U.S. Government-sponsored agencies. During the six month period ended June 30, 2016, the Company deployed funds generated through deposit growth to purchase additional securities to further diversify the securities portfolio and enhance net interest income while supporting liquidity and interest rate risk management. At June 30, 2016, the Company had purchased \$8.7 million of securities available-for-sale that had not settled. This obligation is recorded within accrued expenses and other liabilities on the condensed consolidated balance sheet.

Deposits

The following table presents the composition of the Company's deposit base for the last five quarters.

| (dollars in thousands) | June 30, 2016 | March 31, 2016 | December 31, 2015 | September 30, 2015 | June 30, 2015 |
|----------------------------------|---------------------|---------------------|----------------------|-----------------------|-------------------|
| Noninterest-bearing deposits | \$28,066 2.0 % | \$28,945 2.3 % | \$23,700 2.5 % | \$22,338 2.5 % | \$20,994 2.5 % |
| Interest-bearing demand deposits | 83,031 6.0 % | 89,180 7.2 % | 84,241 8.8 % | 79,031 8.8 % | 77,822 9.1 % |
| Regular savings accounts | 28,900 2.1 % | 27,279 2.2 % | 22,808 2.4 % | 26,316 2.9 % | 24,405 2.8 % |
| Money market accounts | 373,932 26.9 % | 366,195 29.5 % | 341,732 35.7 % | 314,105 34.9 % | 278,791 32.5 % |
| Certificates of deposits | 862,150 62.1 % | 718,733 57.8 % | 470,736 49.2 % | 444,396 49.4 % | 440,936 51.5 % |
| Brokered deposits | 12,854 0.9 % | 12,846 1.0 % | 12,837 1.4 % | 13,564 1.5 % | 13,555 1.6 % |
| Total | \$1,388,933 100.0 % | \$1,243,178 100.0 % | \$956,054 100.0 % | \$899,750 100.0 % | \$856,503 100.0 % |

Total deposits increased \$432.9 million, or 45.3%, to \$1.4 billion as of June 30, 2016 as compared to \$956.1 million as of December 31, 2015. This increase was due primarily to increases of \$391.4 million, or 83.1%, in certificates of deposit, \$32.2 million, or 9.4%, in money market accounts, \$6.1 million, or 26.7%, in regular savings accounts and \$4.4 million, or 18.4%, in noninterest-bearing deposits, partially offset by a decrease of \$1.2 million, or 1.4%, in interest-bearing demand deposits. The increase in the balance of certificates of deposits during the six months of 2016 was primarily due to the Company's concentrated efforts to capitalize on customer demand for longer duration deposit products and to enhance liquidity and asset/liability management.

Common Stock

On May 6, 2016, the Company and the Bank entered into a Sales Agency Agreement with Sandler O'Neill & Partners, L.P. (the "Agent") to sell shares (the "ATM Shares") of the Company's common stock having an aggregate gross sales price of up to \$25,000,000, from time to time, through an "at-the-market" equity offering program (the "ATM Program"). The sales, if any, of the ATM Shares, may be made in sales deemed to be "at-the-market offerings" as defined in Rule 415 under the Securities Act of 1933, as amended, including sales made directly on or through the NASDAQ Capital Market, or another market for the Company's common stock, sales made to or through a market maker other than on an exchange or otherwise, in negotiated transactions at market prices prevailing at the time of sale or at negotiated prices, or as otherwise agreed with the Agent. Subject to the terms and conditions of the Sales Agency Agreement, upon its acceptance of written instructions from the Company, the Agent will use its commercially reasonable efforts to sell on the Company's behalf all of the designated ATM Shares. The Sales Agency Agreement provides for the Company to pay the Agent a commission of up to 3.0% of the gross sales price per share sold through it as sales agent under the Sales Agency Agreement. The Company may also sell ATM Shares under the Sales Agency Agreement to the Agent, as principal for its own account, at a price per share agreed upon at the time of sale. Actual sales will depend on a variety of factors to be determined by the Company from time to time. The Company has no obligation to sell any of the ATM Shares under the Sales Agency Agreement, and may at any time suspend solicitation and offers under the Sales Agency Agreement. In addition, the Company has agreed to indemnify the Agent against certain liabilities on customary terms.

In May 2016, the Company commenced sales of common stock through the ATM Program. The details of the shares of common stock sold through the ATM Program through June 30, 2016 are as follows:

| Month | Weighted Number | |
|-----------|-------------------------------|-------------------|
| | Average of Per Share Price | of Shares Sold |
| May 2016 | \$ 24.06 | 132,087 |
| June 2016 | \$ 25.46 | 7,724 |

As of June 30, 2016, the gross proceeds to the Company from sales of its common stock under the ATM Program totaled \$3.4 million. As of the same date, approximately \$21.6 million remained available for sale under the ATM Program.

On May 23, 2016, the Company separately entered into an Underwriting Agreement with the Agent, pursuant to which the Company would sell an additional 895,955 shares of common stock at \$24.00 per share. This offering closed on May 26, 2016 with the Company receiving gross proceeds of \$21.5 million.

The net proceeds to the Company from the above offerings after deducting underwriting discounts and commissions and offering expenses was \$22.8 million.

Capital

The Company and the Bank are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

The Basel III Capital Rules became effective for the Company and the Bank on January 1, 2015, subject to a phase-in period for certain provisions. Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios of Common Equity Tier 1 capital, Tier 1 capital and Total capital, as defined in the regulations, to risk-weighted assets, and of Tier 1 capital to adjusted quarterly average assets (“Leverage Ratio”).

When fully phased in on January 1, 2019, the Basel III Capital Rules will require the Company and the Bank to maintain: 1) a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of 4.5%, plus a 2.5% “capital conservation buffer” (resulting in a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of 7.0% upon full implementation); 2) a minimum ratio of Tier 1 capital to risk-weighted assets of 6.0%, plus the capital conservation buffer (resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation); 3) a minimum ratio of Total capital to risk-weighted assets of 8.0%, plus the capital conservation buffer (resulting in a minimum Total capital ratio of 10.5% upon full implementation); and 4) a minimum Leverage Ratio of 4.0%.

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The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will be phased in over a four-year period increasing by increments of that amount on each subsequent January 1 until it reaches 2.5% on January 1, 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress. Failure to maintain the minimum Common Equity Tier 1 capital ratio plus the capital conservation buffer will result in potential restrictions on a banking institution's ability to pay dividends, repurchase stock and/or pay discretionary compensation to its employees.

The following tables present actual and required capital ratios as of June 30, 2016 and December 31, 2015 for the Company and the Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of June 30, 2016 and December 31, 2015 based on the phase-in provisions of the Basel III Capital Rules and the minimum required capital levels as of January 1, 2019 when the Basel III Capital Rules have been fully phased-in. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

| | Actual | | Minimum Capital Required - Basel III Phase-In Schedule | | Minimum Capital Required - Basel III Fully Phased-In | | Minimum Required to be Considered Well Capitalized | |
|--|----------------|---------|--|--------|--|---------|--|---------|
| | Capital Amount | Ratio | Capital Amount | Ratio | Capital Amount | Ratio | Capital Amount | Ratio |
| (dollars in thousands) | | | | | | | | |
| As of June 30, 2016: | | | | | | | | |
| Common equity tier 1 capital to risk-weighted assets | | | | | | | | |
| Consolidated | \$128,585 | 10.66 % | \$61,846 | 5.13 % | \$84,473 | 7.00 % | N/A | N/A |
| Bank | 129,427 | 10.75 % | 61,705 | 5.13 % | 84,280 | 7.00 % | 78,260 | 6.50 % |
| Tier 1 capital to risk-weighted assets | | | | | | | | |
| Consolidated | 128,585 | 10.66 % | 79,947 | 6.63 % | 102,574 | 8.50 % | N/A | N/A |
| Bank | 129,427 | 10.75 % | 79,765 | 6.63 % | 102,340 | 8.50 % | 96,320 | 8.00 % |
| Total capital to risk-weighted assets | | | | | | | | |
| Consolidated | 151,385 | 12.54 % | 104,082 | 8.63 % | 126,709 | 10.50 % | N/A | N/A |
| Bank | 139,449 | 11.58 % | 103,845 | 8.63 % | 126,420 | 10.50 % | 120,400 | 10.00 % |
| Leverage ratio | | | | | | | | |
| Consolidated | 128,585 | 8.08 % | 63,663 | 4.00 % | 63,663 | 4.00 % | N/A | N/A |
| Bank | 129,427 | 8.15 % | 63,558 | 4.00 % | 63,558 | 4.00 % | 79,447 | 5.00 % |

| | Actual | | Minimum Capital Required - Basel III Phase-In Schedule | | Minimum Capital Required - Basel III Fully Phased-In | | Minimum Required to be Considered Well Capitalized | |
|--|----------------|---------|--|--------|--|--------|--|--------|
| | Capital Amount | Ratio | Capital Amount | Ratio | Capital Amount | Ratio | Capital Amount | Ratio |
| (dollars in thousands) | | | | | | | | |
| As of December 31, 2015: | | | | | | | | |
| Common equity tier 1 capital to risk-weighted assets | | | | | | | | |
| Consolidated | \$100,839 | 10.11 % | \$44,881 | 4.50 % | \$69,815 | 7.00 % | N/A | N/A |
| Bank | 104,434 | 10.50 % | 44,768 | 4.50 % | 69,639 | 7.00 % | 64,664 | 6.50 % |
| Tier 1 capital to risk-weighted assets | | | | | | | | |

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| | | | | | | | | |
|---------------------------------------|---------|---------|--------|--------|---------|---------|--------|---------|
| Consolidated | 100,839 | 10.11 % | 59,842 | 6.00 % | 84,776 | 8.50 % | N/A | N/A |
| Bank | 104,434 | 10.50 % | 59,690 | 6.00 % | 84,561 | 8.50 % | 79,587 | 8.00 % |
| Total capital to risk-weighted assets | | | | | | | | |
| Consolidated | 122,190 | 12.25 % | 79,789 | 8.00 % | 104,723 | 10.50 % | N/A | N/A |
| Bank | 112,785 | 11.34 % | 79,587 | 8.00 % | 104,458 | 10.50 % | 99,484 | 10.00 % |
| Leverage ratio | | | | | | | | |
| Consolidated | 100,839 | 8.28 % | 48,713 | 4.00 % | 48,713 | 4.00 % | N/A | N/A |
| Bank | 104,434 | 8.59 % | 48,636 | 4.00 % | 48,636 | 4.00 % | 60,796 | 5.00 % |

Shareholders' Dividends

The Company's Board of Directors declared a cash dividend for the second quarter 2016 of \$0.06 per share of common stock payable July 15, 2016 to shareholders of record as of June 30, 2016. The Company expects to continue to pay cash dividends on a quarterly basis; however, the declaration and amount of any future cash dividends will be subject to the sole discretion of the Board of Directors and will depend upon many factors, including its results of operations, financial condition, capital requirements, regulatory and contractual restrictions (including with respect to the Company's outstanding subordinated debt), business strategy and other factors deemed relevant by the Board of Directors.

During 2013, the Company issued a \$3.0 million subordinated debenture to a third party, and during 2015, the Company issued \$10.0 million in subordinated notes to a third party. The agreements under which the subordinated debenture and subordinated notes were issued prohibit the Company from paying any dividends on its common stock or making any other distributions to shareholders at any time when there shall have occurred and be continuing an event of default under the applicable agreement. If an event of default were to occur and the Company did not cure it, the Company would be prohibited from paying any dividends or making any other distributions to shareholders or from redeeming or repurchasing any common stock.

Capital Resources

While the Company believes it has sufficient liquidity and capital resources to meet its cash and capital expenditure requirements for at least the next twelve months, including any cash dividends it may pay, the Company intends to continue pursuing its growth strategy, which may require additional capital. If the Company is unable to secure such capital at favorable terms, its ability to execute its growth strategy could be adversely affected.

Liquidity

Liquidity management is the process used by the Company to manage the continuing flow of funds necessary to meet its financial commitments on a timely basis and at a reasonable cost while also maintaining safe and sound operations. Liquidity, represented by cash and investment securities, is a product of the Company's operating, investing and financing activities. The primary sources of funds are deposits, principal and interest payments on loans and investment securities, maturing loans and investment securities, access to wholesale funding sources and collateralized borrowings. While scheduled payments and maturities of loans and investment securities are relatively predictable sources of funds, deposit flows are greatly influenced by interest rates, general economic conditions and competition. Therefore, the Company supplements deposit growth and enhances interest rate risk management through borrowings, which are generally advances from the Federal Home Loan Bank.

The Company maintains cash and investment securities that qualify as liquid assets to maintain adequate liquidity to ensure safe and sound operations and meet its financial commitments. At June 30, 2016, on a consolidated basis, the Company had \$504.1 million in cash and cash equivalents, interest-bearing time deposits and investment securities available-for-sale and \$44.5 million in loans held-for-sale that were generally available for its cash needs. The Company can also generate funds from wholesale funding sources and collateralized borrowings. At June 30, 2016, the Bank had the ability to borrow an additional \$170.0 million in advances from the Federal Home Loan Bank and correspondent bank Fed Funds lines of credit.

The Company is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, the Company is responsible for paying any dividends declared to its common stockholders and interest and principal on outstanding debt. The Company's primary sources of funds are cash maintained at the holding company level and dividends from the Bank, the payment of which is subject to regulatory limits. At June 30, 2016,

the Company, on an unconsolidated basis, had \$8.6 million in cash generally available for its cash needs, which is in excess of its current annual regular shareholder dividend and operating expenses.

The Company uses its sources of funds primarily to meet ongoing financial commitments, including withdrawals by depositors, credit commitments to borrowers, operating expenses and capital expenditures. At June 30, 2016, approved outstanding loan commitments, including unused lines of credit and standby letters of credit, amounted to \$145.8 million. Certificates of deposit scheduled to mature in one year or less at June 30, 2016 totaled \$382.8 million. Generally, the Company believes that a majority of maturing deposits will remain with the Bank.

Management is not aware of any other events or regulatory requirements that, if implemented, are likely to have a material effect on either the Company's or the Bank's liquidity.

Reconciliation of Non-GAAP Financial Measures

This Management's Discussion and Analysis contains financial information determined by methods other than in accordance with U.S. generally accepted accounting principles ("GAAP"). Non-GAAP financial measures, specifically tangible common equity, tangible assets, average tangible common equity, tangible book value per common share, return on average tangible common equity and tangible common equity to tangible assets are used by the Company's management to measure the strength of its capital and its ability to generate earnings on tangible capital invested by its shareholders. Although the Company believes these non-GAAP measures provide a greater understanding of its business, they should not be considered a substitute for financial measures determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures are included in the following table for the past five quarters and six months ended June 30, 2016 and 2015.

| | Three Months Ended | | | | | Six Months Ended | | |
|---|--------------------|----------------|-------------------|--------------------|---------------|------------------|---------------|---|
| (dollars in thousands, except share and per share data) | June 30, 2016 | March 31, 2016 | December 31, 2015 | September 30, 2015 | June 30, 2015 | June 30, 2016 | June 30, 2015 | |
| Total equity - GAAP | \$ 135,679 | \$ 107,830 | \$ 104,330 | \$ 102,912 | \$ 99,908 | \$ 135,679 | \$ 99,908 | |
| Adjustments: | | | | | | | | |
| Goodwill | (4,687) | (4,687) | (4,687) | (4,687) | (4,687) | (4,687) | (4,687) | |
| Tangible common equity | \$ 130,992 | \$ 103,143 | \$ 99,643 | \$ 98,225 | \$ 95,221 | \$ 130,992 | \$ 95,221 | |
| Total assets - GAAP | \$ 1,702,468 | \$ 1,527,719 | \$ 1,269,870 | \$ 1,166,170 | \$ 1,104,645 | \$ 1,702,468 | \$ 1,104,645 | |
| Adjustments: | | | | | | | | |
| Goodwill | (4,687) | (4,687) | (4,687) | (4,687) | (4,687) | (4,687) | (4,687) | |
| Tangible assets | \$ 1,697,781 | \$ 1,523,032 | \$ 1,265,183 | \$ 1,161,483 | \$ 1,099,958 | \$ 1,697,781 | \$ 1,099,958 | |
| Total common shares outstanding | 5,533,050 | 4,497,284 | 4,481,347 | 4,484,513 | 4,484,513 | 5,533,050 | 4,484,513 | |
| Book value per common share | \$ 24.52 | \$ 23.98 | \$ 23.28 | \$ 22.95 | \$ 22.28 | \$ 24.52 | \$ 22.28 | |
| Effect of goodwill | (0.85) | (1.05) | (1.04) | (1.05) | (1.05) | (0.85) | (1.05) | |
| Tangible book value per common share | \$ 23.67 | \$ 22.93 | \$ 22.24 | \$ 21.90 | \$ 21.23 | \$ 23.67 | \$ 21.23 | |
| Total shareholders' | 7.97 | % 7.06 | % 8.22 | % 8.82 | % 9.04 | % 7.97 | % 9.04 | % |

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| | | | | | | | | | | | | | | |
|---|-----------|----|-----------|----|-----------|----|-----------|----|----------|----|-----------|----|----------|----|
| equity to assets ratio | | | | | | | | | | | | | | |
| Effect of goodwill | (0.25) |)% | (0.29) |)% | (0.34) |)% | (0.36) |)% | (0.38) |)% | (0.25) |)% | (0.38) |)% |
| Tangible common equity to tangible assets ratio | 7.72 | % | 6.77 | % | 7.88 | % | 8.46 | % | 8.66 | % | 7.72 | % | 8.66 | % |
| Total average equity - GAAP | \$117,913 | | \$106,278 | | \$103,583 | | \$100,885 | | \$99,333 | | \$112,096 | | \$98,592 | |
| Adjustments: | | | | | | | | | | | | | | |
| Average goodwill | (4,687) |) | (4,687) |) | (4,687) |) | (4,687) |) | (4,687) |) | (4,687) |) | (4,687) |) |
| Average tangible common equity | \$113,226 | | \$101,591 | | \$98,896 | | \$96,198 | | \$94,646 | | \$107,409 | | \$93,905 | |
| Return on average shareholders' equity | 9.67 | % | 9.20 | % | 8.73 | % | 9.14 | % | 9.15 | % | 9.45 | % | 8.85 | % |
| Effect of goodwill | 0.40 | % | 0.43 | % | 0.41 | % | 0.44 | % | 0.45 | % | 0.41 | % | 0.44 | % |
| Return on average tangible common equity | 10.07 | % | 9.63 | % | 9.14 | % | 9.58 | % | 9.60 | % | 9.86 | % | 9.29 | % |

Critical Accounting Policies and Estimates

There have been no material changes in the Company's critical accounting policies or estimates from those disclosed in its Annual Report on Form 10-K for the year ended December 31, 2015.

Recent Accounting Pronouncements

Refer to Note 12 of the condensed consolidated financial statements.

Off-Balance Sheet Arrangements

In the ordinary course of business, the Company enters into financial transactions to extend credit and forms of commitments that may be considered off-balance sheet arrangements. The Company enters into forward contracts related to its mortgage banking business to hedge the exposures from commitments to extend new residential mortgage loans to customers and from its mortgage loans held-for-sale. At June 30, 2016 and December 31, 2015, the Company had commitments to sell residential real estate loans of \$98.3 million and \$42.7 million, respectively. These contracts mature in less than one year. The Company does not believe that off-balance sheet arrangements have had or are reasonably likely to have a material effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, foreign exchange rates and equity prices. The primary source of market risk for the Company is interest rate risk. Interest rate risk is the risk to earnings and the value of the Company’s equity resulting from changes in market interest rates and arises in the normal course of business to the extent that there are timing and volume differences between the amount of interest-earning assets and the amount of interest-bearing liabilities that are prepaid, withdrawn, re-priced or mature in specified periods. The Company seeks to achieve consistent growth in net interest income and equity while managing volatility arising from shifts in market interest rates.

The Company monitors its interest rate risk position using income simulation models and economic value of equity (“EVE”) sensitivity analysis that capture both short-term and long-term interest rate risk exposure. Income simulation involves forecasting net interest income (“NII”) under a variety of interest rate scenarios. The Company uses EVE sensitivity analysis to understand the impact of changes in interest rates on long-term cash flows, income and capital. EVE is calculated by discounting the cash flows for all balance sheet instruments under different interest-rate scenarios. Modeling the sensitivity of NII and EVE to changes in market interest rates is highly dependent on the assumptions incorporated into the modeling process. The Company continually reviews and refines the assumptions used in its interest rate risk modeling.

Presented below is the estimated impact on the Company’s NII and EVE position as of June 30, 2016, assuming parallel shifts in interest rates:

| | % Change from Base Case for Parallel Changes in Rates | | |
|--------------------------|---|-------------------------|-------------------------|
| | -100 Basis Points ¹ | +100 Basis Points | +200 Basis Points |
| NII - next twelve months | (1.44)% | 2.91 % | 5.98 % |
| EVE | (1.07)% | (4.64)% | (8.82)% |

¹ Because certain current interest rates are at or below 1.00%, the 100 basis point downward shock assumes that certain corresponding interest rates approach an implied floor that, in effect, reflects a decrease of less than the full 100 basis point downward shock.

The Company’s objective is to manage the balance sheet with a bias toward asset sensitivity while simultaneously balancing the potential earnings impact of this strategy. A “risk-neutral” position refers to the absence of a strong bias toward either asset or liability sensitivity. An “asset sensitive” position refers to when the characteristics of the balance sheet are expected to generate higher net interest income when interest rates, primarily short-term rates, increase as

rates earned on interest-earning assets would reprice upward more quickly or in greater quantities than rates paid on interest-bearing liabilities would reprice. A “liability sensitive” position refers to when the characteristics of the balance sheet are expected to generate lower net interest income when short-term interest rates increase as rates paid on interest-bearing liabilities would reprice upward more quickly or in greater quantities than rates earned on interest-earning assets.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information it is required to disclose in reports that it files or submits under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized, and reported within the time period specified in SEC rules and forms. These controls and procedures are also designed to ensure that such information is accumulated and communicated to management, including the principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating disclosure controls and procedures, the Company has recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Management is required to apply judgment in evaluating its controls and procedures.

The Company performed an evaluation under the supervision and with the participation of management, including the principal executive and principal financial officers, to assess the effectiveness of the design and operation of its disclosure controls and procedures under the Exchange Act. Based on that evaluation, the principal executive and principal financial officers concluded that the disclosure controls and procedures were effective as of June 30, 2016.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company’s internal control over financial reporting during the three months ended June 30, 2016 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

The Company is not party to any material legal proceedings. From time to time, the Bank is a party to legal actions arising from its normal business activities.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors previously disclosed in Part I, Item 1A, of the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Unless otherwise indicated, all documents incorporated into this quarterly report on Form 10-Q by reference to a document filed with the SEC pursuant to the Exchange Act are located under SEC file number 1-35750.

| Exhibit No. | Description |
|-------------|---|
| 3.1 | Articles of Incorporation of First Internet Bancorp (incorporated by reference to Exhibit 3.1 to registration statement on Form 10 filed November 30, 2012) |
| 3.2 | Amended and Restated Bylaws of First Internet Bancorp, as amended March 18, 2013 (incorporated by reference to Exhibit 3.2 to annual report on Form 10-K for the year ended December 31, 2012) |
| 10.1 | Sales Agency Agreement, dated as of May 6, 2016, among First Internet Bancorp, First Internet Bank of Indiana and Sandler O'Neill & Partners, L.P. (incorporated by reference to Exhibit 1.1 to current report on Form 8-K filed May 6, 2016) |
| 10.2 | Second Amendment to Office Lease dated as of July 1, 2016, by and between First Internet Bancorp and First Internet Bank of Indiana |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer |
| 32.1 | Section 1350 Certifications |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase |

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST INTERNET BANCORP

Date: 8/2/2016 By /s/ David B. Becker
David B. Becker,
Chairman, President and Chief Executive Officer
(on behalf of Registrant)

Date: 8/2/2016 By /s/ Kenneth J. Lovik
Kenneth J. Lovik,
Senior Vice President and Chief Financial Officer (principal financial
officer)

EXHIBIT INDEX

| Exhibit No. | Description | Method of Filing |
|-------------|--|---------------------------|
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