

Edgar Filing: First Internet Bancorp - Form 10-K

First Internet Bancorp  
Form 10-K  
March 10, 2016  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 2015.

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  
(State or other jurisdiction of  
incorporation or organization)

20-3489991  
(I.R.S. Employer  
Identification No.)

11201 USA Parkway  
Fishers, Indiana  
(Address of principal executive offices)

46037  
(Zip Code)

(317) 532-7900  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of class  
Common stock, without par value

Name of exchange on which registered  
NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933.  Yes  No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

The aggregate market value of common stock held by non-affiliates of the registrant as of June 30, 2015, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$100.6 million, based on the closing sale price for the registrant's common stock on that date. For purposes of determining this number, all officers and directors of the registrant are considered to be affiliates of the registrant. This number is provided only for the purpose of this report and does not represent an admission by either the registrant or any such person as to the status of such person.

As of March 7, 2016, the registrant had 4,486,024 shares of common stock issued and outstanding.

Documents Incorporated By Reference

Portions of our Proxy Statement for our 2016 Annual Meeting of Shareholders are incorporated by reference in Part III.

#### Cautionary Note Regarding Forward-Looking Statements

This annual report on Form 10-K 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”) 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 could be 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 this report 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 disclaims 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.

First Internet Bancorp

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## PART I

### Item 1. Business

#### General

First Internet Bancorp is a bank holding company that conducts its business activities through its wholly-owned subsidiary, First Internet Bank of Indiana, an Indiana chartered bank. First Internet Bank of Indiana was the first state-chartered, Federal Deposit Insurance Corporation (“FDIC”) insured Internet bank and commenced banking operations in 1999. First Internet Bancorp 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.

When we refer to “First Internet Bancorp,” the “Company,” “we,” “us” and “our” in the remainder of this annual report on Form 10-K, we mean First Internet Bancorp and its consolidated subsidiaries, unless the context indicates otherwise. References to “First Internet Bank” or the “Bank” refer to First Internet Bank of Indiana, an Indiana chartered bank and wholly owned subsidiary of the Company. The Bank has one wholly owned subsidiary, JKH Realty Services, LLC, which was established on August 20, 2012 as a single member LLC to manage other real estate owned properties as needed.

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. We have no significant customer concentrations within our loan portfolio.

As of December 31, 2015, we had total assets of \$1.3 billion, total liabilities of \$1.2 billion, and shareholders’ equity of \$104.3 million. We employed 152 full-time equivalent employees at December 31, 2015. Our principal executive offices are located at 11201 USA Parkway, Fishers, Indiana 46037 and our telephone number is (317) 532-7900.

#### Business Strategies

Our business model is significantly different 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.

#### Performance

**Growth.** Total assets have increased 116.9% from \$585.4 million at December 31, 2011 to \$1.3 billion at December 31, 2015. This increase was driven primarily by strong organic growth. During the same time period, loans receivable increased from \$335.2 million to \$953.9 million and deposits increased from \$486.7 million to \$956.1 million, increases of 184.5% and 96.5%, respectively. Our sustained growth profile is the result of our flexible and highly scalable Internet banking platform that allows us to target a broad reach of customers across all 50 states. Additionally, key strategic commercial banking hires have enabled us to further expand our product offerings on both a local and national basis. At December 31, 2015, commercial loans comprised 61.1% of loans receivable compared to 16.1% at December 31, 2011.

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Earnings Trend. Net income has increased 180.3% from \$3.2 million for the twelve months ended December 31, 2011 to \$8.9 million for the twelve months ended December 31, 2015. Diluted earnings per share have increased 76.6% from \$1.11 for the twelve months ended December 31, 2011 to \$1.96 for the twelve months ended December 31, 2015.

Asset Quality. We have maintained a high quality loan portfolio due to our emphasis on a strong credit culture, conservative underwriting standards, and a diverse national and local customer base. At December 31, 2015, our nonperforming assets to total assets was 0.37%, our nonperforming loans to total loans receivable was 0.02% and our allowance for loan losses to total loans receivable was 0.88%.

## Strategic Focus

We operate on a national basis through our scalable Internet banking platform to gather deposits and offer residential mortgage and consumer lending products rather than relying on a conventional brick and mortar branch system. We also primarily conduct commercial banking and related activities on a local basis, except for single tenant lease financing which is offered nationwide. Our overriding strategic focus is enhancing franchise and shareholder value while maintaining strong risk management policies and procedures. We believe the continued creation of franchise and shareholder value will be driven by profitable growth in consumer and commercial banking, effective underwriting, strong asset quality and efficient technology-driven operations.

**National Focus on Deposit and Consumer Banking Growth.** Our first product offerings were basic deposit accounts, certificates of deposit, electronic bill pay and credit cards. Within 90 days of opening, we had accounts with consumers in all 50 states. Over the years, we added consumer loans, lines of credit, home equity loans and single-family mortgages. Our footprint for deposit gathering and these consumer lending activities is the entire nation. With the use of our Internet-based technology platform, we do not face geographic boundaries that traditional banks must overcome for customer acquisition. Armed with smart phones, tablets and computers, our customers can access our online banking system, bill pay, and remote deposit capture 24 hours a day, seven days a week, on a real-time basis. In addition, we have dedicated banking specialists who can service customer needs via telephone, email or online chat. We intend to continue to expand our deposit base by leveraging technology and through cross-selling capabilities as well as targeted marketing efforts.

**Commercial Banking Growth.** We have continued to diversify our operations by adding commercial banking to complement our consumer platform. We offer traditional CRE loans, single tenant lease financing, C&I loans, corporate credit cards and treasury management services. Our commercial lending teams consist of seasoned commercial bankers, most of whom have had extensive careers with larger money center, super-regional or regional banks. These lenders leverage deep market knowledge and experience to serve commercial borrowers with a relationship-based approach. We are continuing to develop new products and services for this market which is expected to produce additional revenue. We also intend to grow and expand our commercial banking platform by hiring additional seasoned loan officers and relationship managers with specialized market or product expertise. **Experience.** Our management team and our Board of Directors are integral to our success. Our management team and Board of Directors are led by David B. Becker, the founder of First Internet Bank of Indiana. Mr. Becker is a seasoned business executive and entrepreneur with over three decades of management experience in the financial services and financial technology space, and has served as Chief Executive Officer since 2005. Mr. Becker has been the recipient of numerous business awards, including Ernst & Young Entrepreneur of the Year in 2001, and was inducted into the Central Indiana Business Hall of Fame in 2008. The senior management team consists of individuals with backgrounds in both regional and community banking and financial technology services. The senior management team is complemented by a dedicated Board of Directors with a wide range of experience from careers in financial services, legal and regulatory services, and industrial services.

**Profitability.** We intend to continue to leverage our technology, our long-term customer relationships and our noninterest income sources to drive profitability. As we continue to grow, we believe that our model will produce a greater level of efficiency than more traditional community banks, with the goal of higher returns on assets and shareholders' equity.

**Maintain Asset Quality, Diversified Loan Portfolio and Effective Underwriting.** We place an emphasis on our strong credit culture and strict underwriting standards of diverse loan products to maintain our excellent credit quality. As of December 31, 2015, the composition of our loan portfolio was 38.4% consumer loans, 61.1% commercial loans and 0.5% net deferred loan origination costs and premiums and discounts on purchased loans. As of December 31, 2011, the composition of our loan portfolio was 82.9% consumer loans, 16.1% commercial loans and 1.0% net deferred loan origination costs and premiums and discounts on purchased loans.

**Efficiency Through Technology.** To date, we have pursued growth in a prudent and disciplined fashion. We will continue to monitor our efficiency ratio and intend to invest in and utilize technology to compete more effectively as we grow in the future. Through our online account access services, augmented by our team of dedicated banking specialists, we can satisfy the needs of our retail and commercial customers in an efficient manner. Our data

processing systems run on a “real-time” basis, unlike many banks that run a “batch system,” so customers benefit from an up-to-the-minute picture of their financial position, particularly our commercial customers who complete numerous transactions in a single day. We believe we have built a scalable banking infrastructure based upon technology, rather than a traditional branch network, and that our Internet banking processes are capable of supporting continued growth while improving operational efficiencies.

Expand Market Share Through Disciplined Acquisition Strategy. We may expand through acquisitions on an opportunistic basis, primarily as a means of securing additional asset generation capabilities and product or geographic expertise.

### Lending Activities

We earn interest income on loans as well as fee income from the origination of loans. Lending activities include loans to individuals, which primarily consist of residential real estate loans, home equity loans and lines of credit, and consumer loans, and loans to commercial clients, which include commercial loans, commercial real estate loans, lines of credit, letters of credit, and single tenant lease financing. Residential real estate loans are either kept in our loan portfolio or sold to secondary investors, with gains or losses from the sales being recognized within noninterest income. Refer to Note 4 of the financial statements for further discussion of each loan portfolio segment.

### Deposit Activities and Other Sources of Funds

We obtain deposits through the ACH network (direct deposit as well as customer-directed transfers of funds from outside financial institutions), remote and mobile deposit capture, mailed checks, wire transfers and a deposit-taking ATM network. Additionally, we had approximately \$12.8 million in brokered time deposits at December 31, 2015 that were originated in prior years.

The Bank does not own or operate any ATMs. Through network participation, the Bank's customers are able to use nearly any ATM worldwide to withdraw cash. The Bank currently rebates up to \$10.00 per customer per month for surcharges our customers incur when using an ATM owned by another institution. Management believes this program is more cost effective for the Bank, and more convenient for customers, than it would be to build and maintain a proprietary nationwide ATM network for our customers.

By providing robust online capabilities, quality customer service and competitive pricing for the products and services offered, we have been able to develop relationships with our customers and build brand loyalty. As a result, we are not dependent upon costly account acquisition campaigns to attract new customers on a continual basis.

### Market Areas

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.

### Competition

The markets in which we compete to make loans and attract deposits are highly competitive.

For retail banking activities, we compete with other banks that use the Internet as a primary service channel, including Ally Bank, EverBank and Bank of Internet. However, we also compete with other banks, savings banks, credit unions, investment banks, insurance companies, securities brokerages and other financial institutions, as nearly all have some form of Internet delivery for their services. For residential mortgage lending, competitors that use the Internet as a primary service channel include Quicken Loans and Loan Depot. However, we also compete with the major banks in residential mortgage lending, including Bank of America, Chase and Wells Fargo.

For our traditional commercial lending activities, we compete with larger financial institutions operating in the Midwest and Central Indiana regions, including Key Bank, PNC Bank, Chase, BMO Harris, Huntington National Bank and First Financial Bank. In the Southwest, competitors include Wells Fargo, Chase, Bank of America, U.S. Bank, Bank of Arizona and CoBiz Bank. For our single tenant lease financing activities, we compete nationally with regional banks, local banks and credit unions, as well as life insurance companies and commercial mortgage-backed

securities lenders. Examples of these competitors include Wells Fargo, Everbank and StanCorp. These competitors may have significantly greater financial resources and higher lending limits than we do, and may also offer specialized products and services that we do not.

In the United States, banking has experienced widespread consolidation over the last decade leading to the emergence of several large nationwide banking institutions. These competitors have significantly greater financial resources and offer many branch locations as well as a variety of services we do not. We have attempted to offset some of the advantages of the larger competitors by leveraging technology to deliver product solutions and better compete in targeted segments. We have positioned ourselves as an alternative to these institutions for consumers who do not wish to subsidize the cost of large branch networks through high fees and unfavorable rates.

We anticipate that consolidation will continue in the financial services industry and perhaps accelerate as a result of ongoing financial stress, intensified competition for the same customer segments and significantly increased regulatory burdens and rules that are expected to increase expenses and put pressure on earnings.

## Regulation and Supervision

### General

Because the Company is a public company, it is subject to regulation by the Securities and Exchange Commission (the "SEC"). Under these regulations, the Company is considered to be an accelerated filer and, as such, must comply with SEC reporting requirements applicable to accelerated filers.

The Company and the Bank are extensively regulated under federal and state law. The Company is a registered bank holding company under the Bank Holding Company Act of 1956 (the "BHCA") and, as such, is subject to regulation, supervision and examination by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). The Company is required to file reports with the Federal Reserve on a quarterly basis.

The Bank is an Indiana-chartered bank formed pursuant to the Indiana Financial Institutions Act (the "IFIA"). As such, the Bank is regularly examined by and subject to regulations promulgated by the Indiana Department of Financial Institutions (the "DFI") and the FDIC as its primary federal bank regulator. The Bank is not a member of the Federal Reserve System.

The regulatory environment affecting the Company has been and continues to be altered by the enactment of new statutes and the adoption of new regulations as well as by revisions to, and evolving interpretations of, existing regulations. State and federal banking agencies have significant discretion in the conduct of their supervisory and enforcement activities and their examination policies. Any change in such practices and policies could have a material impact on the Company's operations and shareholders.

The following discussion is intended to be a summary of the material statutes, regulations and regulatory directives that are currently applicable to us. It does not purport to be comprehensive or complete and it is expressly subject to and modified by reference to the text of the applicable statutes, regulations and directives.

### The Dodd-Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") comprehensively reformed the regulation of financial institutions and the products and services they offer. Certain provisions of the Dodd-Frank Act noted in this section are also discussed in other sections. Furthermore, many of the provisions of the Dodd-Frank Act require further study or rulemaking by federal agencies, a process which will take years to implement fully.

Among other things, the Dodd-Frank Act provides for new capital standards that eliminate or restrict the treatment of trust preferred securities as Tier 1 capital based on the asset size of an institution. The Company has never issued any trust preferred securities. The Dodd-Frank Act permanently raised deposit insurance levels to \$250,000, retroactive to January 1, 2008, and provided unlimited deposit insurance coverage for noninterest-bearing transaction accounts through December 31, 2012. Pursuant to modifications under the Dodd-Frank Act, deposit insurance assessments are now being calculated based on an insured depository institution's assets rather than its insured deposits, and the minimum reserve ratio of the FDIC's Deposit Insurance Fund (the "DIF") has been raised to 1.35%. The payment of interest on business demand deposit accounts is permitted by the Dodd-Frank Act. The Dodd-Frank Act authorized the Federal Reserve to regulate interchange fees for debit card transactions and established new minimum mortgage underwriting standards for residential mortgages. Further, the Dodd-Frank Act barred certain banking organizations

from engaging in proprietary trading and from sponsoring and investing in hedge funds and private equity funds, except as permitted under certain limited circumstances. The Dodd-Frank Act empowered the newly established Financial Stability Oversight Council to designate certain activities as posing a risk to the U.S. financial system and to recommend new or heightened standards and safeguards for financial organizations engaging in such activities.

The Dodd-Frank Act also established the Consumer Financial Protection Bureau (the “CFPB”) as an independent agency within the Board of Governors of the Federal Reserve System. The CFPB has the exclusive authority to administer, enforce, and otherwise implement federal consumer financial laws, which includes the power to make rules, issue orders, and issue guidance governing the provision of consumer financial products and services. The CFPB has exclusive federal consumer law supervisory authority and primary enforcement authority over insured depository institutions with assets totaling over \$10 billion. Authority for institutions with \$10 billion or less rests with the prudential regulator, and in the case of the Bank will be enforced by the FDIC. The CFPB was also required to establish four offices: 1) Office of Fair Lending and Equal Opportunity, 2) Office of Financial Education, 3) Office of Service Member Affairs, and 4) Office of Financial Protection for Older Americans. Additionally, the Bureau was required to establish a Consumer Advisory Board to advise and consult with the Bureau in the exercise of its functions. Further, the Dodd-Frank Act established the Office of Financial Research, which has the power to require reports from other financial services companies.

On December 10, 2013, five federal agencies published the final “Volcker Rule” pursuant to the Dodd-Frank Act. Among other things, the Volcker Rule imposes significant limitations on certain activities by covered banks and bank holding companies, including restrictions on holding certain types of securities, proprietary trading and private equity investing. Most of the limitations imposed by the Volcker Rule are not likely to impact smaller banks which do not engage in proprietary trading or private equity activities. However, the restrictions on investing in hedge funds and similar entities could impact the ability to invest in collateralized debt obligations and other investments that many smaller banks hold. On January 14, 2014, through publication of an Interim Final Rule, the federal banking agencies clarified that investments by banks in certain trust preferred collateralized debt obligations are not prohibited by the Volcker Rule. The Volcker Rule did not have any material implications on the Bank or our investments or activities.

On October 3, 2015, the CFPB’s final rules on integrated mortgage disclosures under the Truth in Lending Act and the Real Estate Settlement Procedures Act became effective. The new disclosures are intended to improve disclosures to consumers and also contain tolerance limitations that may cause lenders to refund fees charged to consumers when certain costs vary between the initial and final disclosure.

#### Holding Company Regulation

We are subject to supervision and examination as a bank holding company by the Federal Reserve under the BHCA. In addition, the Federal Reserve has the authority to issue orders to bank holding companies to cease and desist from unsafe or unsound banking practices and from violations of conditions imposed by, or violations of agreements with, the Federal Reserve. The Federal Reserve is also empowered, among other things, to assess civil money penalties against companies or individuals who violate Federal Reserve orders or regulations, to order termination of nonbanking activities of bank holding companies and to order termination of ownership and control of a nonbanking subsidiary by a bank holding company. Federal Reserve approval is also required in connection with bank holding companies’ acquisitions of more than 5% of the voting shares of any class of a depository institution or its holding company and, among other things, in connection with the bank holding company’s engaging in new activities.

Under the BHCA, our activities are limited to businesses so closely related to banking, managing or controlling banks as to be a proper incident thereto. The BHCA also requires a bank holding company to obtain approval from the Federal Reserve before (1) acquiring or holding more than a 5% voting interest in any bank or bank holding company, (2) acquiring all or substantially all of the assets of another bank or bank holding company or (3) merging or consolidating with another bank holding company.

We have not filed an election with the Federal Reserve to be treated as a “financial holding company,” a type of holding company that can engage in certain insurance and securities-related activities that are not permitted for a bank holding company.

Source of Strength. Under the Dodd-Frank Act, we are required to serve as a source of financial and managerial strength for the Bank in the event of the financial distress of the Bank. This provision codifies the longstanding policy of the Federal Reserve. Although the Dodd-Frank Act requires the federal banking agencies to issue regulations to implement the source of strength provisions, no regulations have been promulgated at this time. In addition, any capital loans by a bank holding company to any of its depository subsidiaries are subordinate to the payment of deposits and to certain other indebtedness. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a depository subsidiary will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Regulatory Capital. The Federal Reserve sets risk-based capital ratio and leverage ratio guidelines for bank holding companies. Under the guidelines and related policies, bank holding companies must maintain capital sufficient to meet both a risk-based asset ratio test and a leverage ratio test on a consolidated basis. The guidelines provide a systematic analytical framework that makes regulatory capital requirements sensitive to differences in risk profiles among banking organizations, takes off-balance sheet exposures expressly into account in evaluating capital adequacy and minimizes disincentives to holding assets considered by regulatory agencies to be liquid and low-risk. The risk-based ratio is determined by allocating assets and specified off-balance sheet commitments into risk-weighted categories, with higher weighting assigned to categories perceived as representing greater risk. The risk-based ratio represents total capital divided by total risk-weighted assets. The leverage ratio is Tier 1 capital divided by total average assets adjusted as specified in the guidelines. The Bank, supervised by the FDIC and DFI, is subject to substantially similar capital requirements. Our applicable capital ratios as of December 31, 2015 and December 31, 2014 are summarized in Note 13 to the financial statements.

In July 2013, the Federal Reserve published final rules (the “Basel III Capital Rules”) establishing a new comprehensive capital framework for U.S. bank holding companies. The FDIC adopted substantially identical standards for institutions, like the Bank, subject to its jurisdiction in an interim final rule. The Basel III Capital Rules implement requirements consistent with agreements reached by the Basel Committee on Banking Supervision as well as certain provisions of the Dodd-Frank Act. These rules substantially revised the risk-based capital requirements applicable to depository institutions and their holding companies, including the Company and the Bank. The Basel III Capital Rules were effective for all banks as of January 1, 2015, subject to certain phase-in periods for some requirements.

Among other things, the Basel III Capital Rules (i) introduce a new capital measure called “Common Equity Tier 1” (“CET1”), (ii) specify that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting specified requirements, (iii) apply most deductions/adjustments to regulatory capital measures to CET1 and not to the other components of capital, thus potentially requiring higher levels of CET1 in order to meet minimum ratios, and (iv) expand the scope of the deductions/adjustments from capital in comparison to current regulations.

As of December 31, 2015, the minimum capital ratios under Basel III Capital Rules were: 4.5% CET1 to risk-weighted assets, 6.0% Tier 1 capital to risk-weighted assets, 8.0% Total capital (Tier 1 Capital plus Tier 2 Capital) to risk-weighted assets and 4.0% leverage ratio.

In addition, a capital conservation buffer of 2.5% above each level applicable to the CET1, Tier 1, and Total capital ratios will be required for banking institutions like the Company and the Bank to avoid restrictions on their ability to make capital distributions, including dividends, and pay certain discretionary bonus payments to executive officers. The following are the Basel III regulatory capital levels that the Company and the Bank must satisfy to avoid limitations on capital distributions, including dividends, and discretionary bonus payments during the applicable transition period from January 1, 2015, until January 1, 2019:

	Basel III Regulatory Capital Levels					
	January 1, 2015	January 1, 2016	January 1, 2017	January 1, 2018	January 1, 2019	
Common equity tier 1 capital to risk-weighted assets	4.50	% 5.125	% 5.75	% 6.375	% 7.00	%
Tier 1 capital to risk-weighted assets	6.00	% 6.625	% 7.25	% 7.875	% 8.50	%
Total capital to risk-weighted assets	8.00	% 8.625	% 9.25	% 9.875	% 10.50	%

The Basel III Capital Rules provide for multiple new deductions from and adjustments to CET1. These include, for example, the requirement that deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one category exceeds 10% of total CET1 or all such categories in the aggregate exceed 15% of CET1. Implementation of these adjustments began on

January 1, 2015, and will be phased in over the following four years.

The Basel III Capital Rules also revise the prompt corrective action framework by (i) introducing a CET1 ratio requirement at each capital level, with a required CET1 ratio to remain well-capitalized at 6.5%, (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well-capitalized status being increased to 8% and (iii) transitioning to a leverage ratio of 4% in order to qualify as adequately capitalized and a leverage ratio of 5% to be well-capitalized.

The Company believes that, as of December 31, 2015, the Company and the Bank would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis if such requirements were then effective.

## Regulation of Banks

**Business Activities.** The Bank derives its lending and investment powers from the IFIA, the Federal Deposit Insurance Act (the “FDIA”) and related regulations.

**Loans-to-One Borrower Limitations.** Generally, the Bank’s total loans or extensions of credit to a single borrower, including the borrower’s related entities, outstanding at one time, and not fully secured, cannot exceed 15% of the Bank’s unimpaired capital and surplus. If the loans or extensions of credit are fully secured by readily marketable collateral, the Bank may lend up to an additional 10% of its unimpaired capital and surplus.

**Community Reinvestment Act.** Under the Community Reinvestment Act (the “CRA”), as implemented by FDIC regulations, the Bank has a continuing and affirmative obligation, consistent with safe and sound banking practices, to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution’s discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the FDIC, in connection with its examinations of the Bank, to assess the Bank’s record of meeting the credit needs of its entire community and to take that record into account in evaluating certain applications for regulatory approvals that we may file with the FDIC.

Due to its Internet-driven model and nationwide consumer banking platform, the Bank has opted to operate under a CRA Strategic Plan, which was submitted to and approved by the FDIC and sets forth certain guidelines the Bank must meet. The current Strategic Plan expires December 31, 2017. The Bank received a “Satisfactory” CRA rating in its most recent CRA examination. Failure of an institution to receive at least a “Satisfactory” rating could inhibit such institution or its holding company from engaging in certain activities or pursuing acquisitions of other financial institutions.

**Transactions with Affiliates.** The authority of the Bank, like other FDIC-insured banks, to engage in transactions with its “affiliates” is limited by Sections 23A and 23B of the Federal Reserve Act and the Federal Reserve’s Regulation W. An “affiliate” for this purpose is defined generally as any company that owns or controls the Bank or is under common ownership or control with the Bank, but excludes a company controlled by a bank. In general, transactions between the Bank and its affiliates must be on terms that are consistent with safe and sound banking practices and at least as favorable to the Bank as comparable transactions between the Bank and non-affiliates. In addition, covered transactions with affiliates are restricted individually to 10% and in the aggregate to 20% of the Bank’s capital. Collateral ranging from 100% to 130% of the loan amount depending on the quality of the collateral must be provided for an affiliate to secure a loan or other extension of credit from the Bank. The Company is an “affiliate” of the Bank for purposes of Regulation W and Sections 23A and 23B of the Federal Reserve Act. We believe the Bank is in compliance with these provisions.

**Loans to Insiders.** The Bank’s authority to extend credit to its directors, executive officers and principal shareholders, as well as to entities controlled by such persons (“Related Interests”), is governed by Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve. Among other things, these provisions require that extensions of credit to insiders: (1) be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features; and (2) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank’s capital. In addition, extensions of credit in excess of certain limits must be approved in advance by the Bank’s Board of Directors. Further, provisions of the Dodd-Frank Act require that after July 21, 2011, any sale or purchase of an asset by the Bank with an insider must be on market terms and if the transaction represents more than 10% of the Bank’s capital stock and surplus it must be approved in advance by a

majority of the disinterested directors of the Bank. We believe the Bank is in compliance with these provisions.

Enforcement. The DFI and the FDIC share primary regulatory enforcement responsibility over the Bank and its institution-affiliated parties (“IAPs”), including directors, officers and employees. This enforcement authority includes, among other things, the ability to appoint a conservator or receiver for the Bank, to assess civil money penalties, to issue cease and desist orders, to seek judicial enforcement of administrative orders and to remove directors and officers from office and bar them from further participation in banking. In general, these enforcement actions may be initiated in response to violations of laws, regulations and administrative orders, as well as in response to unsafe or unsound banking practices or conditions.

Standards for Safety and Soundness. Pursuant to the FDIA, the federal banking agencies have adopted a set of guidelines prescribing safety and soundness standards. These guidelines establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings standards, compensation, fees and benefits. In general, the guidelines require appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. We believe we are in compliance with the safety and soundness guidelines.

Dividends. The ability of the Bank to pay dividends is limited by state and federal laws and regulations that require the Bank to obtain the prior approval of the DFI before paying a dividend that, together with other dividends it has paid during a calendar year, would exceed the sum of its net income for the year to date combined with its retained net income for the previous two years. The amount of dividends the Bank may pay may also be limited by the principles of prudent bank management.

Capital Distributions. The FDIC may disapprove of a notice or application to make a capital distribution if:

- the Bank would be undercapitalized following the distribution;
- the proposed capital distribution raises safety and soundness concerns; or
- the capital distribution would violate a prohibition contained in any statute, regulation or agreement applicable to the Bank.

Insurance of Deposit Accounts. The Bank is a member of the DIF, which is administered by the FDIC. All deposit accounts at the Bank are insured by the FDIC up to a maximum of \$250,000 per depositor.

The FDIA, as amended by the Federal Deposit Insurance Reform Act and the Dodd-Frank Act, requires the FDIC to set a ratio of deposit insurance reserves to estimated insured deposits—the designated reserve ratio (the “DRR”)—of at least 1.35%. The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank’s capital level and supervisory rating. On February 27, 2009, the FDIC introduced three possible adjustments to an institution’s initial base assessment rate: (1) a decrease of up to five basis points for long-term unsecured debt, including senior unsecured debt (other than debt guaranteed under the Temporary Liquidity Guarantee Program) and subordinated debt and, for small institutions, a portion of Tier 1 capital; (2) an increase not to exceed 50 percent of an institution’s assessment rate before the increase for secured liabilities in excess of 25 percent of domestic deposits; and (3) for non-Risk Category I institutions, an increase not to exceed 10 basis points for brokered deposits in excess of 10 percent of domestic deposits. On November 9, 2010, the FDIC proposed to change its assessment base from total domestic deposits to average total assets minus average tangible equity as required in the Dodd-Frank Act. The new assessment formula became effective on April 1, 2011, and was used to calculate the June 30, 2011 assessment. The FDIC plans to raise the same expected revenue under the new base as under the current assessment base. Since the new base is larger than the current base, the proposal would lower the assessment rate schedule to maintain revenue neutrality. Assessment rates would be reduced to a range of 2.5 to 9 basis points on the broader assessment base for banks in the lowest risk category (well capitalized and CAMELS I or II) and up to 30 to 45 basis points for banks in the highest risk category.

FDIC insurance expense, including assessments relating to Financing Corporation (FICO) bonds, totaled \$0.6 million for 2015.

Under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Liquidity. The Bank is required to maintain a sufficient amount of liquid assets to ensure its safe and sound operation. To fund its operations, the Bank historically has relied upon deposits, Federal Home Loan Bank of Indianapolis (“FHLB”) borrowings, fed funds lines with correspondent banks and brokered deposits. The Bank believes it has sufficient liquidity to meet its funding obligations.

Federal Home Loan Bank System. The Bank is a member of the FHLB, which is one of the regional Federal Home Loan Banks comprising the Federal Home Loan Bank System. Each Federal Home Loan Bank serves as a central credit facility primarily for its member institutions. The Bank, as a member of the FHLB, is required to acquire and hold shares of FHLB capital stock. While the required percentage of stock ownership is subject to change by the FHLB, the Bank is in compliance with this requirement with an investment in FHLB stock at December 31, 2015 of \$8.6 million. Any advances from the FHLB must be secured by specified types of collateral, and long term advances may be used for the purpose of providing funds to make residential mortgage or commercial loans and to purchase investments. Long term advances may also be used to help alleviate interest rate risk for asset and liability management purposes. The Bank receives dividends on its FHLB stock.

Federal Reserve System. Although the Bank is not a member of the Federal Reserve System, it is subject to provisions of the Federal Reserve Act and the Federal Reserve's regulations under which depository institutions may be required to maintain reserves against their deposit accounts and certain other liabilities. In 2008, the Federal Reserve Banks began paying interest on reserve balances. Currently, reserves must be maintained against transaction accounts (primarily NOW and regular checking accounts). As of December 31, 2015, the Federal Reserve's regulations required reserves equal to 3% on transaction account balances over \$14.5 million and up to \$103.6 million, plus 10% on the excess over \$103.6 million. These requirements are subject to adjustment annually by the Federal Reserve. The Bank is in compliance with the foregoing reserve requirements. The balances maintained to meet the reserve requirements imposed by the Federal Reserve may be used to satisfy liquidity requirements imposed by the FDIC.

Anti-Money Laundering and the Bank Secrecy Act. Under the Bank Secrecy Act (the "BSA"), a financial institution is required to have systems in place to detect and report transactions of a certain size and nature. Financial institutions are generally required to report to the U.S. Treasury any cash transactions involving more than \$10,000. In addition, financial institutions are required to file suspicious activity reports for transactions that involve more than \$5,000 and which the financial institution knows, suspects or has reason to suspect involves illegal funds, is designed to evade the requirements of the BSA or has no lawful purpose. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"), which amended the BSA, is designed to deny terrorists and others the ability to obtain anonymous access to the U.S. financial system. The USA PATRIOT Act has significant implications for financial institutions and businesses of other types involved in the transfer of money. The USA PATRIOT Act, in conjunction with the implementation of various federal regulatory agency regulations, has caused financial institutions, such as the Bank, to adopt and implement additional policies or amend existing policies and procedures with respect to, among other things, anti-money laundering compliance, suspicious activity, currency transaction reporting, customer identity verification and customer risk analysis.

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These sanctions, which are administered by the Treasury Office of Foreign Assets Control ("OFAC"), take many different forms. Generally, however, they contain one or more of the following elements: (1) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (2) blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (for example, property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC.

Consumer Protection Laws. The Bank is subject to a number of federal and state laws designed to protect consumers and prohibit unfair or deceptive business practices. These laws include the Equal Credit Opportunity Act, Fair Housing Act, Home Ownership Protection Act, Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act of 2003 (the "FACT Act"), the Gramm-Leach-Bliley Act (the "GLBA"), the Truth in Lending

Act, the CRA, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the National Flood Insurance Act and various state law counterparts. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must interact with customers when taking deposits, making loans, collecting loans and providing other services. Further, the Dodd-Frank Act established the CFPB, which has the responsibility for making and amending rules and regulations under the federal consumer protection laws relating to financial products and services. The CFPB also has a broad mandate to prohibit unfair or deceptive acts and practices and is specifically empowered to require certain disclosures to consumers and draft model disclosure forms. Failure to comply with consumer protection laws and regulations can subject financial institutions to enforcement actions, fines and other penalties. The FDIC will enforce applicable CFPB rules with respect to the Bank.

**Mortgage Reform.** The Dodd-Frank Act prescribes certain standards that mortgage lenders must consider before making a residential mortgage loan, including verifying a borrower's ability to repay such mortgage loan. The Dodd-Frank Act also allows borrowers to assert violations of certain provisions of the Truth-in-Lending Act as a defense to foreclosure proceedings. Under the Dodd-Frank Act, prepayment penalties are prohibited for certain mortgage transactions and creditors are prohibited from financing insurance policies in connection with a residential mortgage loan or home equity line of credit. The Dodd-Frank Act requires mortgage lenders to make additional disclosures prior to the extension of credit, in each billing statement and for negative amortization loans and hybrid adjustable rate mortgages. Additionally, the Dodd-Frank Act prohibits mortgage originators from receiving compensation based on the terms of residential mortgage loans and generally limits the ability of a mortgage originator to be compensated by others if compensation is received from a consumer.

**Customer Information Security.** The federal banking agencies have adopted final guidelines for establishing standards for safeguarding nonpublic personal information about customers. These guidelines implement provisions of the GLBA. Specifically, the Information Security Guidelines established by the GLBA require each financial institution, under the supervision and ongoing oversight of its board of directors or an appropriate committee thereof, to develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information (as defined under the GLBA), to protect against anticipated threats or hazards to the security or integrity of such information and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. The federal banking regulators have issued guidance for banks on response programs for unauthorized access to customer information. This guidance, among other things, requires notice to be sent to customers whose "sensitive information" has been compromised if unauthorized use of this information is "reasonably possible."

**Identity Theft Red Flags.** The federal banking agencies jointly issued final rules and guidelines in 2007 implementing Section 114 of the FACT Act and final rules implementing Section 315 of the FACT Act. The rules implementing Section 114 require each financial institution or creditor to develop and implement a written Identity Theft Prevention Program to detect, prevent and mitigate identity theft in connection with the opening of certain accounts or certain existing accounts. In addition, the federal banking agencies issued guidelines to assist financial institutions and creditors in the formulation and maintenance of an Identity Theft Prevention Program that satisfies the requirements of the rules. The rules implementing Section 114 also require credit and debit card issuers to assess the validity of notifications of changes of address under certain circumstances. Additionally, the federal banking agencies issued joint rules, that became effective in 2008, under Section 315 that provide guidance regarding reasonable policies and procedures that a user of consumer reports must employ when a consumer reporting agency sends the user a notice of address discrepancy.

**Privacy.** The GLBA requires financial institutions to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to nonaffiliated third parties. In general, the statute requires financial institutions to explain to consumers their policies and procedures regarding the disclosure of such nonpublic personal information and, except as otherwise required or permitted by law, financial institutions are prohibited from disclosing such information except as provided in their policies and procedures. The Bank is required to provide notice to its customers on an annual basis disclosing their policies and procedures on the sharing of nonpublic personal information. In December 2009, the federal banking agencies promulgated regulations that incorporate a two-page model form that financial institutions may use to satisfy their privacy disclosure obligations under the GLBA. These regulations became effective in January 2011.

**Cybersecurity.** In March of 2015, federal regulators issued two related statements regarding cybersecurity. One statement indicates that financial institutions should design multiple layers of security controls to establish lines of defense and ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the

financial institution. The other statement indicates that a financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption, and maintenance of the institution's operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. If the Company fails to observe the regulatory guidance, it could be subject to various regulatory sanctions, including financial penalties.

In support of its Internet banking platform, the Company relies heavily on electronic communications and information systems to conduct its operations and store sensitive data. The Company employs an in-depth approach that leverages people, processes, and technology to manage and maintain cybersecurity controls. In addition, the Company employs a variety of preventative and detective tools to monitor, block, and provide alerts regarding suspicious activity, as well as to report on any suspected advanced persistent threats. Notwithstanding the strength of the Company's defensive measures, the threat from cyber-attacks is severe, attacks are sophisticated and increasing in volume, and attackers respond rapidly to changes in defensive measures. Although to date the Company has not experienced any material losses relating to cyber-attacks or other information security breaches, its systems and those of its customers and third-party service providers are under constant threat and it is possible that the Company could experience a significant event in the future. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of Internet and mobile banking and other technology-based products and services, by the Company and its customers.

### Employees

At December 31, 2015, we had 152 full-time equivalent employees. None of our employees are currently represented by a union or covered by a collective bargaining agreement. Management believes that its employee relations are satisfactory.

### Available Information

Our Internet address is [www.firstinternetbancorp.com](http://www.firstinternetbancorp.com). We post important information for investors on our website and use this website as a means for complying with our disclosure obligations under Regulation FD. Accordingly, investors should monitor our website, in addition to following our press releases, SEC filings, public conference calls, presentations and webcasts. Investors can easily find or navigate to pertinent information about us, free of charge, on our website, including:

- our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after we electronically file such material with or furnish it to the SEC;

- announcements of investor conferences and events at which our executives talk about our products and competitive strategies. Archives of some of these events are also available;

- press releases on quarterly earnings, product announcements, legal developments and other material news that we may post from time to time;

- corporate governance information, including our Corporate Governance Principles, Code of Business Conduct and Ethics, information concerning our Board of Directors and its committees, including the charters of the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee, and other governance-related policies;

- shareholder services information, including ways to contact our transfer agent; and

- opportunities to sign up for email alerts and RSS feeds to have information provided in real time.

The information available on our website is not incorporated by reference in, or a part of, this or any other report we file with or furnish to the SEC.

Item 1A. Risk Factors

Risk factors which could cause actual results to differ from our expectations and which could negatively impact our financial condition and results of operations are discussed below and elsewhere in this report. Additional risks and uncertainties not presently known to us or that are currently not believed to be significant to our business may also affect our actual results and could harm our business, financial condition and results of operations. If any of the risks or uncertainties described below or any additional risks and uncertainties actually occur, our business, results of operations and financial condition could be materially and adversely affected.

## RISKS RELATED TO OUR BUSINESS

A failure of, or interruption in, the communications and information systems on which we rely to conduct our business could adversely affect our revenues and profitability.

We rely heavily upon communications and information systems to conduct our business. Although we have built a level of redundancy into our information technology infrastructure and update our business continuity plan annually, any failure or interruption of our information systems, or the third-party information systems on which we rely, as a result of inadequate or failed processes or systems, human errors or external events, could adversely affect our Internet-based operations and slow the processing of applications, loan servicing, and deposit-related transactions. In addition, our communication and information systems may present security risks and could be susceptible to hacking or other unauthorized access. The occurrence of any of these events could have a material adverse effect on our business, financial condition and results of operations.

Our commercial loan portfolio exposes us to higher credit risks than residential real estate and consumer loans, including risks relating to the success of the underlying business and conditions in the market or the economy and concentrations in our commercial loan portfolio.

We are growing our C&I and CRE loan portfolios. At December 31, 2015, C&I loans amounted to \$102.0 million, or 10.7% of total loans receivable, and CRE loans amounted to \$480.9 million, or 50.4% of total loans receivable. These loans generally involve higher credit risks than residential real estate and consumer loans and are dependent upon our lenders maintaining close relationships with the borrowers. Payments on these loans are often dependent upon the successful operation and management of the underlying business or assets, and repayment of such loans may be influenced to a great extent by conditions in the market or the economy. Commercial loans typically involve larger loan balances than residential real estate or consumer loans and could lead to concentration risks within our commercial loan portfolio. In addition, our C&I loans have primarily been extended to small to medium sized businesses that generally have fewer financial resources in terms of capital or borrowing capacity than larger entities. Our failure to manage this growth could have a material adverse effect on our business, financial condition and results of operations.

In addition, with respect to commercial real estate loans, federal and state banking regulators are examining commercial real estate lending activity with heightened scrutiny and may require banks with higher levels of commercial real estate loans to implement more stringent underwriting, internal controls, risk management policies and portfolio stress testing, as well as possibly higher levels of allowances for losses and capital levels as a result of commercial real estate lending growth and exposures. Because a significant portion of our loan portfolio is comprised of commercial real estate loans, the banking regulators may require us to maintain higher levels of capital than we would otherwise be expected to maintain, which could limit our ability to leverage our capital and have a material adverse effect on our business, financial condition, results of operations and prospects.

Weakness in the economy may materially adversely affect our business and results of operations.

Our results of operations are materially affected by conditions in the economy generally, which continue to be uncertain and include sluggish economic growth, accompanied by historically low interest rates. Dramatic declines in the housing market following the 2008 financial crisis, with falling home prices and increasing foreclosures and unemployment, resulted in significant write-downs of asset values by financial institutions. While conditions have improved, a return to a recessionary economy could result in financial stress on our borrowers that would adversely affect consumer confidence, a reduction in general business activity and increased market volatility. The resulting economic pressure on consumers and businesses and the lack of confidence in the financial markets could adversely affect our business, financial condition, results of operations and stock price. Our ability to properly assess the creditworthiness of our customers and to estimate the losses inherent in our credit exposure would be made more complex by these difficult market and economic conditions. Accordingly, if market conditions worsen, we may experience increases in foreclosures, delinquencies, write-offs and customer bankruptcies, as well as more restricted access to funds.

The market value of some of our investments could decline and adversely affect our financial position.

As of December 31, 2015, we had a net unrealized holding loss of approximately \$1.9 million on the available for sale portion of our \$213.7 million investment securities portfolio. In assessing the impairment of investment securities, we

consider the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuers, whether the market decline was affected by macroeconomic conditions and whether we have the intent to sell the security or will be required to sell the security before its anticipated recovery. We also use economic models to assist in the valuation of some of our investment securities. If our investment securities experience a decline in value, we would need to determine whether the decline represented an other-than-temporary impairment, in which case we would be required to record a write-down of the investment and a corresponding charge to our earnings.

Because our business is highly dependent on technology that is subject to rapid change and transformation, we are subject to risks of obsolescence.

The Bank conducts its consumer lending and deposit gathering activities through the Internet. The financial services industry is undergoing rapid technological change, and we face constant evolution of customer demand for technology-driven financial and banking products and services. Many of our competitors have substantially greater resources to invest in technological improvement and product development, marketing and implementation. Any failure to successfully keep pace with and fund technological innovation in the markets in which we compete could have a material adverse effect on our business, financial condition and results of operations.

We may need additional capital resources in the future and these capital resources may not be available when needed or at all, without which our financial condition, results of operations and prospects could be materially impaired. If we continue to experience significant growth, we may need to raise additional capital. Our ability to raise capital, if needed, will depend upon our financial performance and on conditions in the capital markets, as well as economic conditions generally. Accordingly, such financing may not be available to us on acceptable terms or at all. If we cannot raise additional capital when needed, it would have a material adverse effect on our business, financial condition and results of operations.

The competitive nature of the banking and financial services industry could negatively affect our ability to increase our market share and retain long term profitability.

Competition in the banking and financial services industry is strong. We compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies and brokerage and investment banking firms operating locally and nationwide. Some of our competitors have greater name recognition and market presence than we do and offer certain services that we do not or cannot provide. In addition, larger competitors may be able to price loans and deposits more aggressively than we do, which could affect our ability to increase our market share and remain profitable on a long term basis. Our success will depend on the ability of the Bank to compete successfully on a long term basis within the financial services industry.

We rely on our management team and could be adversely affected by the unexpected loss of key officers.

Our future success and profitability is substantially dependent upon our management and the abilities of our senior executives. We believe that our future results will also depend in part upon our ability to attract and retain highly skilled and qualified management. Competition for senior personnel is intense, and we may not be successful in attracting and retaining such personnel. Changes in key personnel and their responsibilities may be disruptive to our business and could have a material adverse effect on our business, financial condition and results of operations. In particular, the loss of our chief executive officer could have a material adverse effect on our business, financial condition and results of operations.

Fluctuations in interest rates could reduce our profitability and affect the value of our assets.

Like other financial institutions, we are subject to interest rate risk. Our primary source of income is net interest income, which is the difference between interest earned on loans and investments and interest paid on deposits and borrowings. We expect that we will periodically experience imbalances in the interest rate sensitivities of our assets and liabilities and the relationships of various interest rates to each other. Over any defined period of time, our interest-earning assets may be more sensitive to changes in market interest rates than our interest-bearing liabilities, or vice-versa. In addition, the individual market interest rates underlying our loan and deposit products may not change to the same degree over a given time period. In any event, if market interest rates should move contrary to our position, earnings may be negatively affected. In addition, loan volume and quality and deposit volume and mix can be affected by market interest rates as can the businesses of our clients. Changes in levels of market interest rates could have a material adverse effect on our net interest spread, asset quality, loan origination volume, deposit gathering efforts and overall profitability.

Market interest rates are beyond our control, and they fluctuate in response to economic conditions and the policies of various governmental and regulatory agencies, in particular, the Federal Reserve. Changes in monetary policy, including changes in interest rates, may negatively affect our ability to originate loans and leases, the value of our assets and our ability to realize gains from the sale of our assets, all of which ultimately could affect our earnings.



An inadequate allowance for loan losses would reduce our earnings and adversely affect our financial condition and results of operations.

Our success depends to a significant extent upon the quality of our assets, particularly the credit quality of our loans. In originating loans, there is a substantial likelihood that credit losses will be experienced. We maintain an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, that represents management's best estimate of probable losses inherent in our loan portfolio. The level of the allowance reflects management's continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic, political and regulatory conditions; and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and judgment and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in such estimates may have a significant impact on our financial statements. The allowance our management has established for loan losses may not be adequate to absorb losses in our loan portfolio. Continuing deterioration of economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside our control, may require an increase in the allowance for loan losses.

Bank regulatory agencies periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs, based on judgments different than those of our management. To the extent required charge-offs in future periods exceed the allowance for loan losses, we may need additional provisions to increase the allowance. Any increases in the allowance for loan losses will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on our business, results of operations, financial condition and prospects.

Consumer loans in our portfolio generally have greater risk of loss or default than residential real estate loans and may make it necessary to increase our provision for loan losses.

At December 31, 2015, our consumer loans, excluding residential mortgage loans and home equity loans, totaled \$108.3 million, representing approximately 11.4% of our total loan portfolio at such date. The overwhelming majority of our consumer loans are horse trailer and recreational vehicle loans acquired through our indirect dealer network. Consumer loans generally have a greater risk of loss or default than do residential mortgage loans, particularly in the case of loans that are secured by rapidly depreciating assets such as horse trailer and recreational vehicles. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans. It may become necessary to increase our provision for loan losses in the event that our losses on these loans increase, which would reduce our earnings and could have a material adverse effect on our business, financial condition and results of operations.

Portions of our commercial lending activities are geographically concentrated in the Midwest and Central Indiana, and changes in local economic conditions may impact their performance.

We offer our retail products and services throughout the United States through our web-based operations. However, both CRE and C&I relationships are highly dependent on strong lender/borrower relationships. We serve CRE borrowers primarily in Indiana and the surrounding Midwest states, and our more recent expansion into C&I lending has historically focused primarily on Central Indiana. Accordingly, the performance of our CRE and C&I lending depends upon demographic and economic conditions in those regions. The profitability of our CRE and C&I loan portfolio may be impacted by changes in those conditions. Additionally, unfavorable local or national economic conditions could reduce or limit the growth rate of our CRE and C&I loan portfolios for a significant period of time, or otherwise decrease the ability of those borrowers to repay their loans, which could have a material adverse effect on our business, financial condition and results of operations.

Because of our holding company structure, we depend on capital distributions from the Bank to fund our operations.

We are a separate and distinct legal entity from the Bank and have no business activities other than our ownership of the Bank. As a result, we primarily depend on dividends, distributions and other payments from the Bank to fund our obligations. The ability of the Bank to pay dividends to us is limited by state and federal law and depends generally on the Bank's ability to generate net income. If we are unable to comply with applicable provisions of these statutes and regulations, the Bank may not be able to pay dividends to us, and we would not be able to pay dividends on our outstanding common stock and our ability to service our debt would be materially impaired.

Lack of seasoning of our commercial loan portfolios may increase the risk of credit defaults in the future. Due to our increasing emphasis on CRE and C&I lending, a substantial amount of the loans in our commercial loan portfolios and our lending relationships are of relatively recent origin. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process referred to as “seasoning.” A portfolio of older loans will usually behave more predictably than a newer portfolio. As a result, because a large portion of our commercial loan portfolio is relatively new, the current level of delinquencies and defaults may not be representative of the level that will prevail when the portfolio becomes more seasoned, which may be higher than current levels. If delinquencies and defaults increase, we may be required to increase our provision for loan losses, which could have a material adverse effect on our business, financial condition and results of operations. A sustained decline in the mortgage loan markets or the related real estate markets could reduce loan origination activity or increase delinquencies, defaults and foreclosures, which could adversely affect our financial results. Historically, our mortgage loan business has provided a significant portion of our revenue and our ability to maintain or grow that revenue is dependent upon our ability to originate loans and sell them on the secondary market. For the twelve months ended December 31, 2014, income from mortgage banking activities was \$5.6 million, and it was \$9.0 million for the twelve months ended December 31, 2015. Mortgage loan originations are sensitive to changes in economic conditions, including decreased economic activity, a slowdown in the housing market, and higher market interest rates, and has historically been cyclical, enjoying periods of strong growth and profitability followed by periods of lower volumes and market-wide losses. During periods of rising interest rates, refinancing originations for many mortgage products tend to decrease as the economic incentives for borrowers to refinance their existing mortgage loans are reduced. In addition, the mortgage loan origination business is affected by changes in real property values. A reduction in real property values could also negatively affect our ability to originate mortgage loans because the value of the real properties underlying the loans is a primary source of repayment in the event of foreclosure. The national market for residential mortgage loan refinancing has declined in recent years and future declines could adversely impact our business. Any sustained period of increased delinquencies, foreclosures or losses could harm our ability to originate and sell mortgage loans, and the price received on the sale of such loans, which could have a material adverse effect on our business, financial condition and results of operations.

Reputational risk and social factors may negatively affect us.

Our ability to attract and retain customers is highly dependent upon consumer and other external perceptions of our business practices and financial condition. Adverse perceptions could damage our reputation to a level that could lead to difficulties in generating and maintaining deposit accounts and accessing credit markets as well as increased regulatory scrutiny of our business. Borrower payment behaviors also affect us. To the extent that borrowers determine to stop paying their loans where the financed properties’ market values are less than the amount of their loans, or for other reasons, our costs and losses may increase. Adverse developments or perceptions regarding the business practices or financial condition of our competitors, or our industry as a whole, may also indirectly adversely affect our reputation.

In addition, adverse reputational developments with respect to third parties with whom we have important relationships may adversely affect our reputation. All of the above factors may result in greater regulatory and/or legislative scrutiny, which may lead to laws or regulations that may change or constrain the manner in which we engage with our customers and the products we offer and may also increase our litigation risk. If these risks were to materialize, they could negatively affect our business, financial condition and results of operations.

A failure in or breach of our operational or security systems or infrastructure, or those of our third party vendors and other service providers, including as a result of cyber-attacks, could disrupt our business, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.

We depend upon our ability to process, record and monitor our client transactions on a continuous basis. As client, public and regulatory expectations regarding operational and information security have increased, our operational systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions and breakdowns. Our business, financial, accounting and data processing systems, or other operating systems and facilities, may stop operating properly or become disabled or damaged as a result of a number of factors, including events that are wholly or partially beyond our control. For example, there could be electrical or telecommunications

outages; natural disasters such as earthquakes, tornadoes and hurricanes; disease pandemics; events arising from local or larger scale political or social matters, including terrorist acts; and, as described below, cyber-attacks. Although we have business continuity plans and other safeguards in place, our business operations may be adversely affected by significant and widespread disruption to our physical infrastructure or operating systems that support our business and clients.

Information security risks for financial institutions such as ours have generally increased in recent years in part because of the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists and other external parties. As noted above, our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. Our business relies on our digital technologies, computer and email systems, software and networks to conduct its operations. In addition, to access our products and services, our clients may use personal smartphones, tablets, personal computers and other mobile devices that are beyond our control systems. Although we have information security procedures and controls in place, our technologies, systems, networks and our clients' devices may become the target of cyber-attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our clients' confidential, proprietary and other information, or otherwise disrupt our or our clients' or other third parties' business operations.

Third parties with whom we do business or that facilitate our business activities, including financial intermediaries or vendors that provide services or security solutions for our operations, could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints. Although to date we have not experienced any material losses relating to cyber-attacks or other information security breaches, there can be no assurance that we will not suffer such losses in the future. Our risk and exposure to these matters remains heightened because of the evolving nature of these threats. As a result, cybersecurity and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a focus for us. As threats continue to evolve, we may be required to expend additional resources to continue to modify or enhance our protective measures or to investigate and remediate information security vulnerabilities.

Disruptions or failures in the physical infrastructure or operating systems that support our business and clients, or cyber-attacks or security breaches of the networks, systems or devices that our clients use to access our products and services could result in client attrition, regulatory fines, penalties or intervention, reputational damage, claims or litigation, reimbursement or other compensation costs and/or additional compliance costs, any of which could materially and adversely affect our business, financial condition and results of operations.

#### **RISKS RELATING TO THE REGULATION OF OUR INDUSTRY**

We operate in a highly regulated environment, which could restrain our growth and profitability.

We are subject to extensive laws and regulations that govern almost all aspects of our operations. These laws and regulations, and the supervisory framework that oversees the administration of these laws and regulations, are primarily intended to protect depositors, the Deposit Insurance Fund and the banking system as a whole, and not shareholders. These laws and regulations, among other matters, affect our lending practices, capital structure, investment practices, dividend policy, operations and growth. Compliance with the myriad laws and regulations applicable to our organization can be difficult and costly. In addition, these laws, regulations and policies are subject to continual review by governmental authorities, and changes to these laws, regulations and policies, including changes in interpretation or implementation of these laws, regulations and policies, could affect us in substantial and unpredictable ways and often impose additional compliance costs. Further, any new laws, rules and regulations could make compliance more difficult or expensive. All of these laws and regulations, and the supervisory framework applicable to our industry, could have a material adverse effect on our business, financial condition and results of operations.

Federal and state regulators periodically examine our business and we may be required to remediate adverse examination findings.

The Federal Reserve, the FDIC and the Indiana Department of Financial Institutions periodically examine our business, including our compliance with laws and regulations. If, as a result of an examination, a federal or state banking agency were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions

resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil monetary penalties against our officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place us into receivership or conservatorship. Any regulatory action against us could have a material adverse effect on our business, financial condition and results of operations.

Our FDIC deposit insurance premiums and assessments may increase which would reduce our profitability. The deposits of the Bank are insured by the FDIC up to legal limits and, accordingly, subject to the payment of FDIC deposit insurance assessments. The Bank's regular assessments are determined by its risk classification, which is based on its regulatory capital levels and the level of supervisory concern that it poses. High levels of bank failures during and following the financial crisis and increases in the statutory deposit insurance limits have increased resolution costs to the FDIC and put significant pressure on the Deposit Insurance Fund. In order to maintain a strong funding position and restore the reserve ratios of the Deposit Insurance Fund, the FDIC increased deposit insurance assessment rates and charged a special assessment to all FDIC-insured financial institutions. Further increases in assessment rates or special assessments may occur in the future, especially if there are significant additional financial institution failures. Any future special assessments, increases in assessment rates or required prepayments in FDIC insurance premiums could reduce our profitability or limit our ability to pursue certain business opportunities, which could have a material adverse effect on our business, financial condition and results of operations.

The short term and long term impact of recently adopted regulatory capital rules is uncertain and a significant increase in our capital requirements could have an adverse effect on our business and profitability.

In July 2013, the FDIC and the Federal Reserve approved a new rule that substantially amends the regulatory risk-based capital rules applicable to the Bank and the Company. The final rule implements the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The final rule includes new minimum risk-based capital and leverage ratios, which became effective for the Bank and the Company on January 1, 2015, and refines the definition of what constitutes "capital" for purposes of calculating these ratios. The new minimum capital requirements are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4%. The final rule also establishes a "capital conservation buffer" of 2.5%, and will result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%; (ii) a Tier 1 to risk-based assets capital ratio of 8.5%; and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be used for such actions.

The application of more stringent capital requirements for both the Bank and the Company could, among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions constraining us from paying dividends or repurchasing shares if we were to be unable to comply with such requirements, any of which could have a material adverse effect on our business and profitability.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution's performance under the Community Reinvestment Act or fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition and results of operations.

We are subject to evolving and expensive regulations and requirements. Our failure to adhere to these requirements or the failure or circumvention of our controls and procedures could seriously harm our business.

We are subject to extensive regulation as a financial institution and are also required to follow the corporate governance and financial reporting practices and policies required of a company whose stock is registered under the Exchange Act and listed on the NASDAQ Capital Market. Compliance with these requirements means we incur significant legal, accounting and other expenses that we did not incur before 2013 and are not reflected in our historical financial statements prior to that time. Compliance also requires a significant diversion of management time and attention, particularly with regard to disclosure controls and procedures and internal control over financial reporting. Although we have reviewed, and will continue to review, our disclosure controls and procedures in order to determine whether they are effective, our controls and procedures may not be able to prevent errors or frauds in the future. Faulty judgments, simple errors or mistakes, or the failure of our personnel to adhere to established controls and procedures may make it difficult for us to ensure that the objectives of the control system will be met. A failure of our controls and procedures to detect other than inconsequential errors or fraud could seriously harm our business and results of operations.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act, the USA PATRIOT Act of 2001 and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and Internal Revenue Service. We are also subject to increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could have a material adverse effect on our business, financial condition and results of operations.

#### RISKS RELATED TO OUR COMMON STOCK

There is a limited trading market for our common stock and you may not be able to resell your shares.

Our common stock began trading on the NASDAQ Capital Market on February 22, 2013 and we issued common stock through a follow-on public offering in late 2013; however, trading remains relatively limited. Although we expect that a more liquid market for our common stock will develop, we cannot guarantee that you would be able to resell shares of our common stock at an attractive price or at all.

The market price of our common stock can be volatile and may decline.

Securities that are not heavily traded can be more volatile than stock trading in an active market. Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive. Our stock price can fluctuate significantly and may decline in response to a variety of factors including:

- Actual or anticipated variations in quarterly results of operations;
- Developments in our business or the financial sector generally;
- Recommendations by securities analysts;
- Operating and stock price performance of other companies that investors deem comparable to us;
- News reports relating to trends, concerns and other issues in the financial services industry;
- Perceptions in the marketplace regarding us or our competitors;
- New technology used or services offered by competitors;
- Significant acquisitions or business combinations, strategic partnerships, joint venture or capital commitments by or involving us or our competitors;
- Failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- Regulatory changes affecting our industry generally or our business or operations; or

Geopolitical conditions such as acts or threats of terrorism or military conflicts.

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General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease regardless of operating results.

Federal banking laws limit the acquisition and ownership of our common stock.

Because we are a bank holding company, any purchaser of certain specified amounts of our common stock may be required to file a notice with or obtain the approval of the Federal Reserve under the Bank Holding Company Act of 1956, as amended, and the Change in Bank Control Act of 1978, as amended. Specifically, under regulations adopted by the Federal Reserve, (1) any other bank holding company may be required to obtain the approval of the Federal Reserve before acquiring 5% or more of our common stock and (2) any person may be required to file a notice with and not be disapproved by the Federal Reserve to acquire 10% or more of our common stock and will be required to file a notice with and not be disapproved by the Federal Reserve to acquire 25% or more of our common stock.

Anti-takeover provisions could negatively impact our shareholders.

Provisions of Indiana law and provisions of our articles of incorporation could make it more difficult for a third party to acquire control of us or have the effect of discouraging a third party from attempting to acquire control of us. We are subject to certain anti-takeover provisions under the Indiana Business Corporation Law. Additionally, our articles of incorporation authorize our Board of Directors to issue one or more classes or series of preferred stock without shareholder approval and such preferred stock could be issued as a defensive measure in response to a takeover proposal.

Although these provisions do not preclude a takeover, they may have the effect of discouraging, delaying or deferring a tender offer or takeover attempt that a shareholder might consider in his or her best interest, including those attempts that might result in a premium over the market price of our common stock. Such provisions will also render the removal of the board of directors and of management more difficult and, therefore, may serve to perpetuate current management. These provisions could potentially adversely affect the market price of our common stock.

Our shares of common stock are not an insured deposit and as such are subject to loss of entire investment.

The shares of our common stock are not a bank deposit and are not insured or guaranteed by the FDIC or any other government agency. An investment in our common stock is subject to investment risk and an investor must be capable of affording the loss of the entire investment.

If we were to issue preferred stock, the rights of holders of our common stock and the value of such common stock could be adversely affected.

Our Board of Directors is authorized to issue classes or series of preferred stock, without any action on the part of our shareholders. The Board of Directors also has the power, without shareholder approval, to set the terms of any such classes or series of preferred stock, including voting rights, dividend rights and preferences over our common stock with respect to dividends or upon the liquidation, dissolution or winding-up of our business and other terms. If we issue preferred stock in the future that has a preference over our common stock with respect to the payment of dividends or upon liquidation, dissolution or winding-up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of holders of our common stock or the value of our common stock would be adversely affected.

We may issue additional shares of common or preferred stock in the future, which could dilute existing shareholders.

Our articles of incorporation authorize our Board of Directors, generally without shareholder approval, to, among other things, issue additional shares of common stock up to a total of forty-five million shares or up to five million shares of preferred stock. The issuance of any additional shares of common or preferred stock could be dilutive to a shareholder's ownership of our common stock. To the extent that currently outstanding options or warrants to purchase our common stock are exercised, or to the extent that we issue additional options or warrants to purchase our common stock in the future and the options or warrants are exercised, our shareholders may experience further dilution. In addition, we may issue preferred stock that is convertible into shares of our common stock, and upon conversion would result in our common shareholders' ownership interest being diluted. Holders of shares of our common stock have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series and, therefore, shareholders may not be permitted to invest in future issuances of common or preferred stock.

We and the Bank are required by federal and state regulatory authorities, as applicable, to maintain adequate levels of

capital to support our operations. Accordingly, regulatory requirements and/or deterioration in our asset quality may require us to sell common stock to raise capital under circumstances and at prices which result in substantial dilution.

If we default on our subordinated debt, we will be prohibited from paying dividends or distributions on our common stock.

During 2013, we issued a \$3.0 million subordinated debenture to a third party, and during 2015, we issued \$10.0 million in subordinated notes to a third party. The agreements under which the subordinated debenture and subordinated notes were issued prohibit us from paying any dividends on our common stock or making any other distributions to our shareholders at any time when there shall have occurred and be continuing an event of default under the applicable agreement.

Events of default generally consist of, among other things, our failure to pay any principal or interest on the subordinated debenture or subordinated notes, as applicable, when due, our failure to comply with certain agreements, terms and covenants under the agreement (without curing such default following notice), and certain events of bankruptcy, insolvency or liquidation relating to us.

If an event of default were to occur and we did not cure it, we would be prohibited from paying any dividends or making any other distributions to our shareholders or from redeeming or repurchasing any of our common stock, which would likely have a material adverse effect on the market value of our common stock. Moreover, without notice to or consent from the holders of our common stock, we may enter into additional financing arrangements that may limit our ability to purchase or to pay dividends or distributions on our common stock.

#### Item 1B. Unresolved Staff Comments

None.

#### Item 2. Properties

The Company owns an office building at 11201 USA Parkway, Fishers, Indiana 46037 with approximately 52,000 square feet of office space and related real estate located in Fishers, Indiana. This building houses our principal executive offices and we intend to use the property for the current and future operations of the Company and the Bank.

The Bank is currently leasing approximately 34,618 square feet of office space at the Fishers property. The lease has an initial term of five years and provides for monthly rent in the amount of \$18.50 per square foot.

In March 2013, the Company borrowed \$4.0 million from the Bank for the purchase of the Company's principal executive offices. The original scheduled maturity date of the loan was March 6, 2014. Effective March 6, 2014, the Company entered into an Acknowledgment, Confirmation and Amendment that, among other things, extended the maturity of the loan to March 6, 2015. Effective March 6, 2015, the Company entered into a Second Acknowledgment, Confirmation and Amendment that extended the maturity of the loan to March 6, 2016. Effective February 26, 2016, the Company entered into a Third Acknowledgment, Confirmation and Amendment that extended the maturity of the loan to March 6, 2017. The loan bears interest during the term at a variable rate equal to the then applicable prime rate (as determined by the Bank with reference to the "Prime Rate" published in The Wall Street Journal) plus 1.00% per annum. The loan agreement contains customary warranties and representations, affirmative covenants and events of default. The loan agreement provides that the loan is to be secured by a first priority mortgage and lien on the acquired property and requires that the Company, at all times, maintain collateral securing the loan with an "as is" market value of not less than 1.3 times the principal balance of the loan.

#### Item 3. Legal Proceedings

We are not a 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 4. Mine Safety Disclosures

None.

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## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

## Market Information

The Company's common stock began trading on the NASDAQ Capital Market under the symbol "INBK" effective February 22, 2013. Previously, shares of the Company's common stock were quoted on the over-the-counter market under the symbol "FIBP."

The following table sets forth the range of high and low stock prices and dividends declared per share for each quarter within the two most recent fiscal years.

Period	High (US\$)	Low (US\$)	Declared Dividends
Year Ended December 31, 2015:			
Fourth Quarter	\$33.00	\$26.26	\$0.06
Third Quarter	39.76	24.05	0.06
Second Quarter	25.70	18.01	0.06
First Quarter	19.00	14.25	0.06
Year Ended December 31, 2014:			
Fourth Quarter	19.00	15.10	0.06
Third Quarter	22.00	15.54	0.06
Second Quarter	24.00	19.38	0.06
First Quarter	26.10	19.66	0.06

As of March 7, 2016, the Company had 4,486,024 shares of common stock issued and outstanding, and there were 147 holders of record of common stock.

## Stock Performance Graph

The following graph compares the five-year cumulative total return to shareholders of First Internet Bancorp common stock with that of the NASDAQ Composite Index and the SNL Micro Cap U.S. Bank Index. The SNL Micro Cap U.S. Bank Index is comprised of publicly-traded banking institutions with market capitalizations of less than \$250 million. First Internet Bancorp is included in the SNL Micro Cap U.S. Bank Index.

The following table assumes \$100 invested on December 31, 2010 in First Internet Bancorp, the NASDAQ Composite Index and the SNL Micro Cap U.S. Bank Index, and assumes that dividends are reinvested.

	December 31,					
	2010	2011	2012	2013	2014	2015
First Internet Bancorp	\$100.00	\$85.00	\$193.30	\$313.80	\$236.49	\$409.27
NASDAQ Composite Index	100.00	99.17	116.48	163.21	187.27	200.31
SNL Micro Cap U.S. Bank Index	100.00	95.11	120.19	155.07	175.86	195.56

## Dividends

The Company began paying regular quarterly cash dividends in 2013. Total dividends declared in 2015 were \$0.24 per share. 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.

On June 21, 2013 the Company effected a three-for-two (3:2) stock split of outstanding common stock through the payment of a stock dividend of one-half of one share for each then-outstanding share of common stock.

## Recent Sales of Unregistered Securities

None.

## Item 6. Selected Financial Data

## Five Year Selected Financial and Other Data

The following selected consolidated financial and other data is qualified in its entirety by, and should be read in conjunction with, Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the notes thereto contained in this annual report on Form 10-K. Certain reclassifications have been made to prior period financial information as discussed in Note 1 to the consolidated financial statements.

(dollars in thousands, except per share data)	At or for the Twelve Months Ended December 31,					
	2015	2014	2013	2012	2011	
<b>Balance Sheet Data:</b>						
Total assets	\$ 1,269,870	\$ 970,503	\$ 802,342	\$ 636,367	\$ 585,440	
Cash and cash equivalents	25,152	28,289	53,690	32,513	34,778	
Loans receivable	953,859	732,426	501,153	358,161	335,226	
Loans held-for-sale	36,518	34,671	28,610	63,264	45,091	
Securities available-for-sale	213,698	137,518	181,409	156,693	149,270	
Deposits	956,054	758,598	673,095	530,691	486,665	
Tangible common equity <sup>1</sup>	99,643	92,098	86,221	56,663	50,736	
Total shareholders' equity	104,330	96,785	90,908	61,350	55,423	
<b>Income Statement Data:</b>						
Interest income	\$ 41,447	\$ 31,215	\$ 25,536	\$ 24,374	\$ 23,944	
Interest expense	10,694	8,928	8,088	8,532	9,621	
Net interest income	30,753	22,287	17,448	15,842	14,323	
Provision for loan losses	1,946	349	324	2,852	2,440	
Net interest income after provision for loan losses	28,807	21,938	17,124	12,990	11,883	
Noninterest income	10,141	7,174	9,517	11,423	3,559	
Noninterest expense	25,283	22,662	20,482	16,613	11,483	
Income before income taxes	13,665	6,450	6,159	7,800	3,959	
Income tax provision	4,736	2,126	1,566	2,194	773	
Net income	\$ 8,929	\$ 4,324	\$ 4,593	\$ 5,606	\$ 3,186	
<b>Per Share Data:</b>						
Net income						
Basic	\$ 1.97	\$ 0.96	\$ 1.51	\$ 1.95	\$ 1.11	
Diluted	\$ 1.96	\$ 0.96	\$ 1.51	\$ 1.95	\$ 1.11	
Book value per common share	\$ 23.28	\$ 21.80	\$ 20.44	\$ 21.79	\$ 19.74	
Tangible book value per common share <sup>1</sup>	\$ 22.24	\$ 20.74	\$ 19.38	\$ 20.13	\$ 18.07	
Weighted average common shares outstanding						
Basic	4,528,528	4,497,007	3,041,666	2,869,365	2,859,434	
Diluted	4,554,219	4,507,995	3,050,001	2,869,365	2,859,434	
Common shares outstanding at end of period	4,481,347	4,439,575	4,448,326	2,815,094	2,807,385	
Dividends declared per share	\$ 0.24	\$ 0.24	\$ 0.22	\$ 0.17	\$ —	
Dividend payout ratio <sup>2</sup>	12.24	% 25.00	% 14.57	% 8.53	% 0.00	%

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Refer to the “Reconciliation of Non-GAAP Financial Measures” section of Item 7 of Part II of this report, Management's Discussion and Analysis of Financial Condition and Results of Operations.

<sup>2</sup> Dividends per share divided by diluted earnings per share.

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	At or for the Twelve Months Ended December 31,					
	2015	2014	2013	2012	2011	
<b>Performance Ratios:</b>						
Return on average assets	0.81	% 0.50	% 0.67	% 0.91	% 0.59	%
Return on average shareholders' equity	8.89	% 4.61	% 7.10	% 9.51	% 6.09	%
Return on average tangible common equity <sup>1</sup>	9.33	% 4.85	% 7.65	% 10.33	% 6.69	%
Net interest margin <sup>2</sup>	2.85	% 2.65	% 2.67	% 2.67	% 2.75	%
Noninterest income to average assets	0.92	% 0.82	% 1.39	% 1.86	% 0.66	%
Noninterest expense to average assets	2.28	% 2.60	% 2.99	% 2.70	% 2.12	%
Efficiency ratio <sup>3</sup>	61.83	% 78.35	% 75.78	% 61.04	% 64.52	%
<b>Asset Quality Ratios:</b>						
Nonperforming loans to total loans	0.02	% 0.04	% 0.37	% 1.23	% 2.64	%
Nonperforming assets to total assets	0.37	% 0.50	% 0.90	% 1.62	% 2.29	%
Nonperforming assets (including troubled debt restructurings) to total assets	0.46	% 0.62	% 1.05	% 1.84	% 2.47	%
Allowance for loan losses to total loans receivable	0.88	% 0.79	% 1.09	% 1.65	% 1.70	%
Net (recoveries) charge-offs to average loans outstanding during period	(0.07)	)% 0.00	% 0.17	% 0.69	% 1.05	%
Allowance for loan losses to nonperforming loans	5,000.6	% 1,959.5	% 293.0	% 133.3	% 64.6	%
<b>Capital Ratios:</b>						
Tangible common equity to tangible assets <sup>1</sup>	7.88	% 9.54	% 10.81	% 8.97	% 8.74	%
Tier 1 leverage ratio <sup>4</sup>	8.28	% 9.87	% 11.66	% 8.89	% 8.74	%
Common equity tier 1 capital ratio <sup>4,5</sup>	10.11	% N/A	N/A	N/A	N/A	
Tier 1 capital ratio <sup>4</sup>	10.11	% 12.55	% 15.61	% 12.20	% 11.15	%
Total risk-based capital ratio <sup>4</sup>	12.25	% 13.75	% 17.09	% 13.46	% 12.40	%
<b>Other Data:</b>						
Full-time equivalent employees	152	143	130	97	74	
Number of banking and loan production offices	3	4	4	1	1	

<sup>1</sup> Refer to the "Reconciliation of Non-GAAP Financial Measures" section of Item 7 of Part II of this report, Management's Discussion and Analysis of Financial Condition and Results of Operations.

<sup>2</sup> Net interest margin is net interest income divided by average earning assets.

<sup>3</sup> Efficiency ratio is noninterest expense divided by the sum of net interest income and noninterest income, excluding gains and losses from the sale of securities.

<sup>4</sup> Capital ratios are calculated in accordance with regulatory guidelines specified by our primary federal banking regulatory authority.

<sup>5</sup> Introduced as part of the final implementation of the "Basel III" regulatory capital reforms as of January 1, 2015. Not applicable to periods prior to 2015.



Item 7. 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 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 this report 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 "Cautionary Note Regarding Forward-Looking Statements" at the beginning of this report.

Overview

First Internet Bancorp is a bank holding company that conducts its business activities through its wholly-owned subsidiary, First Internet Bank of Indiana, an Indiana chartered bank. First Internet Bank of Indiana was the first state-chartered, FDIC insured Internet bank and commenced banking operations in 1999. First Internet Bancorp 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 CRE lending, including nationwide single tenant lease financing, and 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

Refer to Item 6 for a summary of the Company's financial performance for the five most recent years.

During the twelve months ended December 31, 2015, net income was \$8.9 million, or \$1.96 per diluted share, compared to net income of \$4.3 million, or \$0.96 per diluted share, for the twelve months ended December 31, 2014 and net income of \$4.6 million, or \$1.51 per diluted share, for the twelve months ended December 31, 2013.

The increase in net income of \$4.6 million for the twelve months ended December 31, 2015 compared to the twelve months ended December 31, 2014 was primarily due to an \$8.5 million increase in net interest income and a \$3.0 million increase in noninterest income. This was partially offset by a \$2.6 million increase in income tax expense, a \$2.6 million increase in noninterest expense and a \$1.6 million increase in provision for loan losses.

The decrease in net income of \$0.3 million for the twelve months ended December 31, 2014 compared to the twelve months ended December 31, 2013 was primarily due to a \$2.3 million decrease in noninterest income, a \$2.2 million increase in noninterest expense and a \$0.6 million increase in income tax expense, partially offset by a \$4.8 million increase in net interest income.

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During the twelve months ended December 31, 2015, return on average assets and return on average shareholders' equity were 0.81% and 8.89%, respectively, compared to 0.50% and 4.61%, respectively, for the twelve months ended December 31, 2014, and 0.67% and 7.10%, respectively, for the twelve months ended December 31, 2013.

## 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)	Twelve Months Ended		December 31, 2014		December 31, 2013			
	Average Balance	Yield/Cost	Average Balance	Yield/Cost	Average Balance	Yield/Cost		
<b>Assets</b>								
<b>Interest-earning assets</b>								
Loans, including loans held-for-sale	\$853,996	4.34	% \$631,743	4.41	% \$435,799	4.78	%	
Securities - taxable	171,502	2.17	% 151,967	2.00	% 137,230	2.11	%	
Securities - non-taxable	10,343	3.02	% 1,785	3.25	% 43,620	3.69	%	
Other earning assets	42,375	0.84	% 56,094	0.44	% 37,785	0.51	%	
Total interest-earning assets	1,078,216	3.84	% 841,589	3.71	% 654,434	3.90	%	
Allowance for loan losses	(6,906 )		(5,414 )		(5,573 )			
Noninterest earning-assets	35,912		36,128		35,719			
Total assets	\$1,107,222		\$872,303		\$684,580			
<b>Liabilities</b>								
<b>Interest-bearing liabilities</b>								
Interest-bearing demand deposits	\$76,145	0.55	% \$70,362	0.55	% \$68,366	0.55	%	
Regular savings accounts	24,442	0.58	% 18,509	0.59	% 13,806	0.59	%	
Money market accounts	299,990	0.71	% 269,271	0.73	% 224,383	0.74	%	
Certificates and brokered deposits	438,776	1.38	% 350,129	1.48	% 260,549	1.82	%	
Total interest-bearing deposits	839,353	1.04	% 708,271	1.08	% 567,104	1.21	%	
Other borrowed funds	139,695	1.39	% 45,425	2.81	% 31,471	3.90	%	
Total interest-bearing liabilities	979,048	1.09	% 753,696	1.18	% 598,575	1.35	%	
Noninterest-bearing deposits	22,866		20,028		13,605			
Other noninterest-bearing liabilities	4,880		4,783		7,696			
Total liabilities	1,006,794		778,507		619,876			
Shareholders' equity	100,428		93,796		64,704			
Total liabilities and shareholders' equity	\$1,107,222		\$872,303		\$684,580			
Interest rate spread <sup>1</sup>		2.75	%	2.53	%	2.55	%	
Net interest margin <sup>2</sup>		2.85	%	2.65	%	2.67	%	

<sup>1</sup> Yield on total interest-earning assets minus cost of total interest-bearing liabilities

<sup>2</sup> Net interest income divided by average interest-earning assets

## 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.

(amounts in thousands)	Rate/Volume Analysis of Net Interest Income					
	Twelve Months Ended December 31, 2015 vs. December 31, 2014			Twelve Months Ended December 31, 2014 vs. December 31, 2013		
	Due to Changes in		Net	Due to Changes in		Net
Volume	Rate	Volume		Rate		
Interest income						
Loans, including loans held-for-sale	\$9,624	\$(450)	) \$9,174	\$8,750	\$(1,718)	) \$7,032
Securities – taxable	417	275	) 692	301	(156)	) 145
Securities – non-taxable	258	(4)	) 254	(1,381)	(172)	) (1,553)
Other earning assets	(71)	) 183	112	84	(29)	) 55
Total	10,228	4	10,232	7,754	(2,075)	) 5,679
Interest expense						
Interest-bearing deposits	1,390	(288)	) 1,102	1,803	(1,011)	) 792
Other borrowed funds	1,571	(907)	) 664	450	(402)	) 48
Total	2,961	(1,195)	) 1,766	2,253	(1,413)	) 840
Increase in net interest income	\$7,267	\$1,199	\$8,466	\$5,501	\$(662)	) \$4,839

## 2015 v. 2014

Net interest income for the twelve months ended December 31, 2015 was \$30.8 million, an increase of \$8.5 million, or 38.0%, compared to \$22.3 million for the twelve months ended December 31, 2014. Net interest margin was 2.85% for the twelve months ended December 31, 2015 compared to 2.65% for the twelve months ended December 31, 2014. The increases in net interest income and net interest margin were primarily driven by an increase in average interest-earning assets of \$236.6 million, or 28.1%, for the twelve months ended December 31, 2015 compared to the twelve months ended December 31, 2014, as well as changes in the composition of the Company's balance sheet, which resulted in an increase in the yield earned on interest-earning assets and a decrease in the cost of funds related to interest-bearing liabilities.

The increase in net interest income for the twelve months ended December 31, 2015, compared to the twelve months ended December 31, 2014, was also due to a \$10.2 million, or 32.8%, increase in total interest income to \$41.4 million for the twelve months ended December 31, 2015 compared to \$31.2 million for the twelve months ended December 31, 2014. The increase in total interest income was partially offset by a \$1.8 million, or 19.8%, increase in total interest expense to \$10.7 million for the twelve months ended December 31, 2015 compared to \$8.9 million for the twelve months ended December 31, 2014.

The increase in total interest income was due primarily to an increase in interest earned on loans resulting from an increase of \$222.3 million, or 35.2%, 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 \$28.1 million, or 18.3%, in the average balance of securities for the twelve months ended December 31, 2015 compared to the twelve months ended December 31, 2014. The increase in total interest income was also due to a 21 basis point ("bp") increase in the yield earned on the

securities portfolio, partially offset by a decline in the yield earned on loans, including loans held-for-sale, of 7 bps.

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 \$131.1 million, or 18.5%, increase in the average balance of interest-bearing deposits for the twelve months ended December 31, 2015 compared to the twelve months ended December 31, 2014, partially offset by a decline of 4 bps in the cost of funds related to these deposits. Interest expense related to other borrowed funds also contributed to the increase in total interest expense, due to a \$94.3 million, or 207.5%, increase in the average balance of other borrowed funds for the twelve months ended December 31, 2015 compared to the twelve months ended December 31, 2014, partially offset by a decline of 142 bps in the cost of other borrowed funds.

## 2014 v. 2013

Net interest income for the twelve months ended December 31, 2014 was \$22.3 million, an increase of \$4.8 million, or 27.7%, compared to \$17.4 million for the twelve months ended December 31, 2013. Net interest margin was 2.65% for the twelve months ended December 31, 2014 compared to 2.67% for the twelve months ended December 31, 2013. The increase in net interest income was primarily driven by an increase in average interest-earning assets of \$187.2 million, or 28.6%, for the twelve months ended December 31, 2014 compared to the twelve months ended December 31, 2013. The modest decline in net interest margin for the twelve months ended December 31, 2014 compared to the twelve months ended December 31, 2013 was driven primarily by the decline in market interest rates during 2014 as the yield on interest-earnings assets decreased 19 bps and the cost of interest-bearing liabilities decreased 17 bps.

The increase in net interest income for the twelve months ended December 31, 2014, as compared to the twelve months ended December 31, 2013, was also due to a \$5.7 million, or 22.2%, increase in total interest income to \$31.2 million for the twelve months ended December 31, 2014 compared to \$25.5 million for the twelve months ended December 31, 2013. The increase in total interest income was partially offset by a \$0.8 million, or 10.4%, increase in total interest expense to \$8.9 million for the twelve months ended December 31, 2014 compared to \$8.1 million for the twelve months ended December 31, 2013.

The increase in total interest income was due primarily to an increase in interest earned on loans resulting from an increase of \$195.9 million, or 45.0%, in the average balance of loans, including loans held-for-sale, which was offset by a decrease in interest earned on securities resulting from a decrease of \$27.1 million, or 15.0%, in the average balance of securities for the twelve months ended December 31, 2014 compared to the twelve months ended December 31, 2013. The increase in total interest income was also partially offset by a 48 bp decline in the yield earned on the securities portfolio and a 37 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 \$141.2 million, or 24.9%, increase in the average balance of interest-bearing deposits for the twelve months ended December 31, 2014 compared to the twelve months ended December 31, 2013, partially offset by a decline of 13 bps in the cost of funds related to these deposits. Interest expense related to other borrowed funds also contributed to the increase in total interest expense, due to a \$14.0 million, or 44.3%, increase in the average balance of other borrowed funds for the twelve months ended December 31, 2014 compared to the twelve months ended December 31, 2013, partially offset by a decline of 109 bps in the cost of other borrowed funds.

## Noninterest Income

The following table presents noninterest income for the five most recent years.

(amounts in thousands)	Twelve Months Ended December 31,				
	2015	2014	2013	2012	2011
Service charges and fees	\$764	\$707	\$687	\$685	\$1,157
Mortgage banking activities	9,000	5,609	8,682	10,647	3,690
Other-than-temporary impairment loss recognized in net income	—	—	(49	) (252	) (626
Gain (loss) on sale of securities	—	538	(63	) 48	84
Loss on asset disposals	(34	)			