First Internet Bancorp
Form 10-K
March 14, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2016.

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From ________ to ________.

Commission File Number 001-35750

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

Indiana	20-3489991
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

11201 USA Parkway	
Fishers, Indiana	46037
(Address of principal executive offices)	(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	Name of exchange on which registered
Common stock, without par value	The NASDAQ Stock Market LLC
6.0% Fixed to Floating Subordinated Notes due 2026	The NASDAQ Stock Market LLC

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 þ

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 þ

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 þ No ¨

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

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 þ

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 þ

The aggregate market value of common stock held by non-affiliates of the registrant as of June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $122.1 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 10, 2017, the registrant had 6,483,678 shares of common stock issued and outstanding.

Documents Incorporated By Reference

Portions of our Proxy Statement for our 2017 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 (the “Company,” “we,” “our,” “us”) regarding its business strategies, intended results and future performance. Forward-looking statements are generally preceded by terms such as “can,” “expects,” “believes,” “anticipates,” “intends,” “may,” “plan,” “should” 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; potential changes to 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 “FASB”), the Securities and Exchange Commission (the “SEC”), the Public Company Accounting Oversight Board (the “PCAOB”) 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.

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PART I

Item 1. Business

General

First Internet Bancorp is a bank holding company that conducts its primary 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.

We offer a wide range of commercial, small business, consumer and municipal banking products and services. We conduct our consumer and small business deposit operations primarily through online channels on a nationwide basis and have no traditional branch offices. Our residential mortgage products are offered nationwide primarily through an online direct-to-consumer platform and are supplemented with Central Indiana-based mortgage and construction lending. Our consumer lending products are primarily originated on a nationwide basis over the Internet as well as through relationships with dealerships and financing partners.

Our commercial banking products and services are delivered through a relationship banking model and include commercial real estate ("CRE") banking, commercial and industrial ("C&I") banking and public finance. Through our CRE team, we offer single tenant lease financing on a nationwide basis in addition to traditional investor commercial real estate and construction loans primarily within Central Indiana and adjacent markets. To meet the needs of commercial borrowers and depositors located primarily in Central Indiana, Phoenix, Arizona and adjacent markets, our C&I banking team provides credit solutions such as lines of credit, term loans, owner-occupied commercial real estate loans and corporate credit cards as well as treasury management services. Our public finance team, established in early 2017, provides a range of public and municipal lending and leasing products to government entities on a nationwide basis.

As of December 31, 2016, we had total assets of $1.9 billion, total liabilities of $1.7 billion, and shareholders' equity of $153.9 million. We employed 192 full-time equivalent employees at December 31, 2016.
Our principal executive offices are located at 11201 USA Parkway, Fishers, Indiana 46037 and our telephone number is (317) 532-7900.

Subsidiaries

The Bank has two wholly-owned subsidiaries, First Internet Public Finance Corp., which was organized in early 2017 and provides a range of public and municipal finance lending and leasing products to governmental entities throughout the United States and acquires securities issued by state and local governments and other municipalities, and JKH Realty Services, LLC, which manages other real estate owned properties as needed.

Performance

Balance Sheet Growth. Total assets have increased 191.4% from $636.4 million at December 31, 2012 to $1.9 billion at December 31, 2016. This increase was driven primarily by strong organic growth. During the same time period, loans increased from $358.2 million to $1.3 billion and deposits increased from $530.7 million to $1.5 billion, increases of 249.2% and 175.7%, 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, 2016, commercial loans comprised 66.6% of loans compared to 30.9% at December 31, 2012.

Earnings Growth. Net income has increased 115.4% from $5.6 million for the twelve months ended December 31, 2012 to $12.1 million for the twelve months ended December 31, 2016. Diluted earnings per share have increased 17.9% from $1.95 for the twelve months ended December 31, 2012 to $2.30 for the twelve months ended December 31, 2016.

Asset Quality. We have maintained a high quality loan portfolio due to our emphasis on a strong credit culture, conservative underwriting standards, disciplined risk management processes, and a diverse national and local customer base. At December 31, 2016, our nonperforming assets to total assets was 0.31%, our nonperforming loans to total loans was 0.09% and our allowance for loan losses to total loans 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 primarily conduct commercial banking, including CRE and C&I, and related activities on a local basis, except for single tenant lease financing and public finance which are 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 commercial and consumer 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 targeted marketing efforts.

Commercial Banking Growth. We have diversified our operations by adding commercial banking and public finance to complement our consumer platform. We offer traditional CRE loans, single tenant lease financing, C&I loans, corporate credit cards, treasury management services and public and municipal finance loans and leases. Our commercial lending teams consist of seasoned commercial bankers, many 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 intend to continue expanding 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 overseen by a dedicated Board of Directors with a wide range of experience from careers in financial services, legal and regulatory services, and industrial services.

Increased Efficiency Through Technology. We have built a scalable banking platform based upon technology as opposed to a traditional branch network. We intend to continue leveraging this infrastructure as well as investing in and utilizing net technologies 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 that our business model and digital banking processes are capable of supporting continued growth and producing a greater level of operational efficiency, which should drive increasing profitability.

Expand Asset Generation and Revenue Channels. Our geographic and credit product diversity have produced sustained balance sheet and earnings growth. We expect to continue exploring additional asset and revenue generation capabilities that complement our commercial and consumer banking platforms. These efforts may include adding personnel or teams with product, industry or geographic expertise or through strategic acquisitions.

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 C&I loans, CRE loans, municipal loans and leases, lines of credit, letters of credit, and single tenant lease financing. Residential real estate loans are either retained 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 as of December 31, 2016.

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 $5.6 million in brokered time deposits at December 31, 2016 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 our customers, than it would be to build and maintain a proprietary nationwide ATM network.

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.

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 LoanDepot. However, we also compete with money center and superregional 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 KeyBank, 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, First Savings Bank, CapStar Bank, EverBank and StanCorp. For our public finance activities, we compete nationally with superregional and regional banks, such as Huntington National Bank, Key Bank, Capital One, Sterling National Bank and Texas Capital Bank. 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 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

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 results of operations and financial condition.

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 the beginning of 2008. 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. Further, the Dodd-Frank Act established the Office of Financial Research, which has the power to require reports from other financial services companies.

In October 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, 2016 and 2015 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 the beginning of 2015, subject to certain phase-in periods for some requirements.

Among other things, the Basel III Capital Rules (i) introduced a new capital measure called “Common Equity Tier 1” (“CET1”), (ii) specified that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting specified requirements, (iii) applied 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) expanded the scope of the deductions/adjustments from capital in comparison to current regulations.

Since December 31, 2015, the minimum capital ratios under Basel III Capital Rules have been: 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, 2016, 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 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 deposit. In March 2016, the FDIC issued a final rule to increase the statutory minimum designated reserve ratio (the “DRR”) to 1.35% by September 30, 2020, the deadline imposed by the Dodd-Frank Act. The FDIC’s rules reduced assessment rates on all FDIC-insured financial institutions but imposed a surcharge on banks with assets of $10 billion or more until the DRR reaches 1.35% and provide assessment credits to banks with assets of less than $10 billion for the portion of their assessments that contribute to the increase of the DRR to 1.35%. The rules also changed the methodology used to determine risk-based assessment rates for established banks with less than $10 billion in assets to better ensure that banks taking on greater risks pay more for deposit insurance than banks that take on less risk.

FDIC insurance expense, including assessments relating to Financing Corporation (FICO) bonds, totaled $1.2 million for 2016.

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, 2016 of $8.9 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, 2016, the Federal Reserve’s regulations required reserves equal to 3% on transaction account balances over $15.2 million and up to $110.2 million, plus 10% on the excess over $110.2 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 enforces 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 its policies and procedures on the sharing of nonpublic personal information.

Cybersecurity. In March 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 we fail to observe the regulatory guidance, we could be subject to various regulatory sanctions, including financial penalties.

In support of our Internet banking platform, we rely heavily on electronic communications and information systems to conduct our operations and store sensitive data. We employ an in-depth approach that leverages people, processes, and technology to manage and maintain cybersecurity controls. In addition, we employ 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 our 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 we have not experienced any material losses relating to cyber-attacks or other information security breaches, our systems and those of our customers and third-party service providers are under constant threat and it is possible that we 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 us and our customers.

Employees

At December 31, 2016, we had 192 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. 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 CRE and C&I loan portfolios. At December 31, 2016, CRE loans amounted to $730.7 million, or 58.4% of total loans, and C&I loans amounted to $102.4 million, or 8.2% of total loans. 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 commercial loan growth and the related risks 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. 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.
A decrease in the corporate federal income tax rate may impair our deferred tax assets ("DTAs").
At December 31, 2016, our DTAs were approximately $3.3 million. While a decline in the corporate tax rate may lower our tax provision expense, it may also significantly impair the value of our DTAs in the year the rate decrease is enacted. Such impairment could have a material adverse effect on our financial condition and results of operations.
The market value of some of our investments could decline and adversely affect our financial position.
As of December 31, 2016, we had a net unrealized pre-tax holding loss of approximately $14.4 million on the available-for-sale portion of our $456.7 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 deposit gathering activities and a significant portion of its residential mortgage lending 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 could 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, financial technology companies, mutual funds, insurance companies and securities 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, which would negatively impact 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, 2016, our consumer loans, excluding residential mortgage loans and home equity loans, totaled $173.4 million, representing approximately 13.9% of our total loan portfolio at such date. A substantial portion 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 Central Indiana and adjacent markets, and changes in local economic conditions may impact their performance.

We offer our residential mortgage and consumer lending as well as single tenant financing products and services throughout the United States. However, we serve CRE and C&I borrowers primarily in Central Indiana and adjacent markets. 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 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 residential mortgage loan market 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 in the secondary market. Revenue from mortgage banking activities was $12.4 million for the twelve months ended December 31, 2016 and $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 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 lending and deposit relationships and accessing equity or credit markets as well as increased regulatory scrutiny of our business. 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 negatively 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 customer, 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.
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 digital 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 customers 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 customers' 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 customers' confidential, proprietary and other information, or otherwise disrupt our or our customers' 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 DIF 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 DFI 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 a number of factors, including regulatory capital levels, asset growth and asset quality. 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 DIF. In order to maintain a strong funding position and restore the reserve ratios of the DIF, the FDIC may increase deposit insurance assessment rates and may charge 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 long-term impact of 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 Company and the Bank. 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 Company and the Bank 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 was phased-in 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 Company and the Bank 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 Global Select 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 BSA and other anti-money laundering statutes and regulations.

The BSA, the USA PATRIOT Act 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 OFAC. 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 SECURITIES

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. We have since completed several offerings of our common stock and our securities have been listed on the NASDAQ Global Select Market since September 30, 2016. 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.

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 BHCA, 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.

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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.

As of December 31, 2016, we had $38.0 million aggregate principal amount of indebtedness outstanding, consisting of a subordinated debenture in the principal amount of $3.0 million scheduled to mature in 2021 (the “2021 Debenture”), a term loan in the principal amount of $10.0 million scheduled to mature in 2025 (the “2025 Note”) and $25.0 million aggregate principal amount of 6.0% Fixed-to-Floating Rate Subordinate Notes due 2026 (the “2026 Notes”). The agreements under which our indebtedness is 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.

We may not be able to generate sufficient cash to service all of our debt.

Our ability to make scheduled payments of principal and interest, or to satisfy our obligations in respect of our debt or to refinance our debt, will depend on our future performance of our operating subsidiaries. Prevailing economic conditions (including interest rates), regulatory constraints, including, among other things, limiting distributions to us from the Bank and required capital levels with respect to the Bank and certain of our nonbank subsidiaries, and financial, business and other factors, many of which are beyond our control, will also affect our ability to meet these needs. Our subsidiaries may not be able to generate sufficient cash flows from operations, or we may be unable to obtain future borrowings in an amount sufficient to enable us to pay our debt, or to fund our other liquidity needs. We may need to refinance all or a portion of our debt on or before maturity. We may not be able to refinance any of our debt when needed on commercially reasonable terms or at all.

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 all of the 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 loan was originally scheduled to mature in March 2014 and had been extended annually in 2014, 2015 and 2016, resulting in a scheduled maturity of March 6, 2017. Effective February 21, 2017, the Company entered into a Fourth Acknowledgment, Confirmation and Amendment that, among other things, reduced the principal amount of the loan to $3.6 million and extended its maturity to March 6, 2020. Amounts borrowed under the loan bear interest 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 is secured by a first priority mortgage and lien on the 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

Neither we nor any of our subsidiaries are 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.

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 trades on the NASDAQ Global Select Market under the symbol "INBK." 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	Low	Declared Dividends
Year Ended December 31, 2016:			
Fourth Quarter	$33.00	$22.82	$ 0.06
Third Quarter	25.38	22.12	0.06
Second Quarter	27.00	22.01	0.06
First Quarter	28.63	22.41	0.06
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

As of March 10, 2017, the Company had 6,483,678 shares of common stock issued and outstanding, and there were 133 holders of record of common stock.

Dividends

The Company began paying regular quarterly cash dividends in 2013. Total dividends declared in 2016 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.

As of December 31, 2016, the Company had $38.0 million principal amount of subordinated debt. The agreements under which the subordinated debt was 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.

Recent Sales of Unregistered Securities

None.

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, 2011 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,					
	2011	2012	2013	2014	2015	2016
First Internet Bancorp	$100.00	$227.41	$369.18	$278.22	$481.49	$542.17
NASDAQ Composite Index	100.00	117.45	164.57	188.84	201.98	219.89
SNL Micro Cap U.S. Bank Index	100.00	126.37	163.04	184.90	205.62	252.79

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, 2016	2015	2014	2013	2012
Balance Sheet Data:					
Total assets	$1,854,335	$1,269,870	$970,503	$802,342	$636,367
Cash and cash equivalents	39,452	25,152	28,289	53,690	32,513
Loans	1,250,789	953,859	732,426	501,153	358,161
Loans held-for-sale	27,101	36,518	34,671	28,610	63,264
Total securities	473,371	213,698	137,518	181,409	156,693
Deposits	1,462,867	956,054	758,598	673,095	530,691
Tangible common equity [1]	149,255	99,643	92,098	86,221	56,663
Total shareholders' equity	153,942	104,330	96,785	90,908	61,350
Income Statement Data:					
Interest income	$58,899	$41,447	$31,215	$25,536	$24,374
Interest expense	19,210	10,694	8,928	8,088	8,532
Net interest income	39,689	30,753	22,287	17,448	15,842
Provision for loan losses	4,330	1,946	349	324	2,852
Net interest income after provision for loan losses	35,359	28,807	21,938	17,124	12,990
Noninterest income	14,077	10,141	7,174	9,517	11,423
Noninterest expense	31,451	25,283	22,662	20,482	16,613
Income before income taxes	17,985	13,665	6,450	6,159	7,800
Income tax provision	5,911	4,736	2,126	1,566	2,194
Net income	$12,074	$8,929	$4,324	$4,593	$5,606
Per Share Data:					
Net income					
Basic	$2.32	$1.97	$0.96	$1.51	$1.95
Diluted	$2.30	$1.96	$0.96	$1.51	$1.95
Book value per common share	$23.76	$23.28	$21.80	$20.44	$21.79
Tangible book value per common share [1]	$23.04	$22.24	$20.74	$19.38	$20.13
Weighted average common shares outstanding					
Basic	5,211,209	4,528,528	4,497,007	3,041,666	2,869,365
Diluted	5,239,082	4,554,219	4,507,995	3,050,001	2,869,365
Common shares outstanding at end of period	6,478,050	4,481,347	4,439,575	4,448,326	2,815,094
Dividends declared per share	$0.24	$0.24	$0.24	$0.22	$0.17
Dividend payout ratio [2]	10.43 %	12.24 %	25.00 %	14.57 %	8.53 %

1

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.

[2] Dividends per share divided by diluted earnings per share.

	At or for the Twelve Months Ended December 31,				
	2016	2015	2014	2013	2012
Performance Ratios:					
Return on average assets	0.74 %	0.81 %	0.50 %	0.67 %	0.91 %
Return on average shareholders' equity	9.74 %	8.89 %	4.61 %	7.10 %	9.51 %
Return on average tangible common equity [1]	10.12 %	9.33 %	4.85 %	7.65 %	10.33 %
Net interest margin [2]	2.49 %	2.85 %	2.65 %	2.67 %	2.67 %
Asset Quality Ratios:					
Nonperforming loans to total loans	0.09 %	0.02 %	0.04 %	0.37 %	1.23 %
Nonperforming assets to total assets	0.31 %	0.37 %	0.50 %	0.90 %	1.62 %
Nonperforming assets (including troubled debt restructurings) to total assets	0.35 %	0.46 %	0.62 %	1.05 %	1.84 %
Allowance for loan losses to total loans	0.88 %	0.88 %	0.79 %	1.09 %	1.65 %
Net charge-offs (recoveries) to average loans outstanding during period	0.15 %	(0.07)%	0.00 %	0.17 %	0.69 %
Allowance for loan losses to nonperforming loans	1,013.9 %	5,000.6 %	1,959.5 %	293.0 %	133.3 %
Capital Ratios:					
Tangible common equity to tangible assets [1]	8.07 %	7.88 %	9.54 %	10.81 %	8.97 %
Tier 1 leverage ratio [3]	8.65 %	8.28 %	9.87 %	11.66 %	8.89 %
Common equity tier 1 capital ratio [3, 4]	11.54 %	10.11 %	N/A	N/A	N/A
Tier 1 capital ratio [3]	11.54 %	10.11 %	12.55 %	15.61 %	12.20 %
Total risk-based capital ratio [3]	15.01 %	12.25 %	13.75 %	17.09 %	13.46 %
Other Data:					
Full-time equivalent employees	192	152	143	130	97
Number of banking and loan production offices	2	3	4	4	1

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1 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.

2 Net interest margin is net interest income divided by average earning assets.

3 Capital ratios are calculated in accordance with regulatory guidelines specified by our primary federal banking regulatory authority.

4 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 primary 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 wide range of commercial, small business, consumer and municipal banking products and services. We conduct our consumer and small business deposit operations primarily through online channels on a nationwide basis and have no traditional branch offices. Our residential mortgage products are offered nationwide primarily through an online direct-to-consumer platform and are supplemented with Central Indiana-based mortgage and construction lending. Our consumer lending products are primarily originated on a nationwide basis over the Internet as well as through relationships with dealerships and financing partners.

Our commercial banking products and services are delivered through a relationship banking model and include commercial real estate ("CRE") banking, commercial and industrial ("C&I") banking and public finance. Through our CRE team, we offer single tenant lease financing on a nationwide basis in addition to traditional investor commercial real estate and construction loans primarily within Central Indiana and adjacent markets. To meet the needs of commercial borrowers and depositors located primarily in Central Indiana, Phoenix, Arizona and adjacent markets, our C&I banking team provides credit solutions such as lines of credit, term loans, owner-occupied commercial real estate loans and corporate credit cards as well as treasury management services. Our public finance team, established in early 2017, provides a range of public and municipal lending and leasing products to government entities on a nationwide basis.

Results of Operations

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

During the twelve months ended December 31, 2016, net income was $12.1 million, or $2.30 per diluted share, compared to net income of $8.9 million, or $1.96 per diluted share, for the twelve months ended December 31, 2015 and net income of $4.3 million, or $0.96 per diluted share, for the twelve months ended December 31, 2014.

The increase in net income of $3.1 million for the twelve months ended December 31, 2016 compared to the twelve months ended December 31, 2015 was primarily due to an $8.9 million increase in net interest income and a $3.9 million increase in noninterest income. This was partially offset by a $6.2 million increase in noninterest expense, a $2.4 million increase in provision for loan losses and a $1.2 million increase in income tax expense.

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.

During the twelve months ended December 31, 2016, return on average assets was 0.74%, compared to 0.81% for the twelve months ended December 31, 2015 and 0.50% for the twelve months ended December 31, 2014. During the twelve months ended December 31, 2016, return on average shareholders’ equity was 9.74%, compared to 8.89% for the twelve months ended December 31, 2015 and 4.61% for the twelve months ended December 31, 2014.

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.

	Twelve Months Ended December 31, 2016			December 31, 2015			December 31, 2014		
(dollars in thousands)	Average Balance	Interest/Dividends	Yield/Cost	Average Balance	Interest/Dividends	Yield/Cost	Average Balance	Interest/Dividends	Yield/Cost
Assets									
Interest-earning assets									
Loans, including loans held-for-sale	$1,144,687	$49,054	4.29 %	$853,996	$37,049	4.34 %	$631,743	$27,875	4.41 %
Securities - taxable	315,661	7,326	2.32 %	171,502	3,728	2.17 %	151,967	3,036	2.00 %
Securities - non-taxable	64,899	1,856	2.86 %	10,343	312	3.02 %	1,785	58	3.25 %
Other earning assets	71,140	663	0.93 %	42,375	358	0.84 %	56,094	246	0.44 %
Total interest-earning assets	1,596,387	58,899	3.69 %	1,078,216	41,447	3.84 %	841,589	31,215	3.71 %
Allowance for loan losses	(9,808)			(6,906)			(5,414)		
Noninterest earning-assets	43,221			35,912			36,128		
Total assets	$1,629,800			$1,107,222			$872,303		
Liabilities									
Interest-bearing liabilities									
Interest-bearing demand deposits	$82,533	$452	0.55 %	$76,145	$418	0.55 %	$70,362	$386	0.55 %
Regular savings accounts	27,174	158	0.58 %	24,442	142	0.58 %	18,509	109	0.59 %
Money market accounts	360,976	2,563	0.71 %	299,990	2,136	0.71 %	269,271	1,965	0.73 %
Certificates and brokered deposits	817,348	12,680	1.55 %	438,776	6,059	1.38 %	350,129	5,193	1.48 %
Total interest-bearing deposits	1,288,031	15,853	1.23 %	839,353	8,755	1.04 %	708,271	7,653	1.08 %
Other borrowed funds	183,410	3,357	1.83 %	139,695	1,939	1.39 %	45,425	1,275	2.81 %
Total interest-bearing liabilities	1,471,441	19,210	1.31 %	979,048	10,694	1.09 %	753,696	8,928	1.18 %
	28,472			22,866			20,028		

Noninterest-bearing deposits			
Other noninterest-bearing liabilities	5,864	4,880	4,783
Total liabilities	1,505,777	1,006,794	778,507
Shareholders' equity	124,023	100,428	93,796
Total liabilities and shareholders' equity	$ 1,629,800	$ 1,107,222	$ 872,303
Net interest income	$ 39,689	$ 30,753	$ 22,287
Interest rate spread[1]	2.38 %	2.75 %	2.53 %
Net interest margin[2]	2.49 %	2.85 %	2.65 %

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

[2] 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.

	Rate/Volume Analysis of Net Interest Income					
	Twelve Months Ended December 31, 2016 vs. December 31, 2015 Due to Changes in			Twelve Months Ended December 31, 2015 vs. December 31, 2014 Due to Changes in		
(amounts in thousands)	Volume	Rate	Net	Volume	Rate	Net
Interest income						
Loans, including loans held-for-sale	$12,438	$(433)	$12,005	$9,624	$(450)	$9,174
Securities – taxable	3,325	273	3,598	417	275	692
Securities – non-taxable	1,562	(18)	1,544	258	(4)	254
Other earning assets	264	41	305	(71)	183	112
Total	17,589	(137)	17,452	10,228	4	10,232
Interest expense						
Interest-bearing deposits	5,290	1,808	7,098	1,390	(288)	1,102
Other borrowed funds	705	713	1,418	1,571	(907)	664
Total	5,995	2,521	8,516	2,961	(1,195)	1,766
Increase (decrease) in net interest income	$11,594	$(2,658)	$8,936	$7,267	$1,199	$8,466

2016 v. 2015

Net interest income for the twelve months ended December 31, 2016 was $39.7 million, an increase of $8.9 million, or 29.1%, compared to $30.8 million for the twelve months ended December 31, 2015. The increase in net interest income was the result of a $17.5 million, or 42.1%, increase in total interest income to $58.9 million for the twelve months ended December 31, 2016 compared to $41.4 million for the twelve months ended December 31, 2015. The increase in total interest income was partially offset by an $8.5 million, or 79.6%, increase in total interest expense to $19.2 million for the twelve months ended December 31, 2016 compared to $10.7 million for the twelve months ended December 31, 2015.

The increase in total interest income was due primarily to an increase in interest earned on loans resulting from an increase of $290.7 million, or 34.0%, 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 $198.7 million, or 109.3%, in the average balance of securities for the twelve months ended December 31, 2016 compared to the twelve months ended December 31, 2015. The increase in total interest income was also due to a 19 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 5 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 $448.7 million, or 53.5%, increase in the average balance of interest-bearing deposits for the twelve months ended December 31, 2016 compared to the twelve months ended December 31, 2015, and an increase of 19 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 $43.7 million, or 31.3%, increase in the average balance of other borrowed funds for the twelve months ended December 31, 2016 compared to the twelve months ended December 31, 2015, and an increase of 44 bps in the cost of other borrowed funds.

Net interest margin was 2.49% for the twelve months ended December 31, 2016 compared to 2.85% for the twelve months ended December 31, 2015. The decrease in net interest margin was primarily due to a 22 bp increase in the cost of interest-bearing liabilities and a 15 bp decrease in the yield on interest-earning assets. The increase in the cost of interest-bearing liabilities was primarily due to an increase in average certificates of deposits balances and an increase in the related cost of those deposits. Further, the Company issued additional subordinated debt during 2016 which increased the cost of other borrowed funds. The decrease in the yield on interest-earning assets was primarily due to a decrease in the yield earned on loans and an increase in average cash balances compared to the prior year.

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. The increase in net interest income was the result of 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 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.

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.

Noninterest Income

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

	Twelve Months Ended December 31,				
(amounts in thousands)	2016	2015	2014	2013	2012
Service charges and fees	$818	$764	$707	$687	$685
Mortgage banking activities	12,398	9,000	5,609	8,682	10,647
Other-than-temporary impairment loss recognized in net income	—	—	—	(49)	(252)
Gain (loss) on sale of securities	177	—	538	(63)	48
Loss on asset disposals	(63)	(34)	(78)	(146)	(93)
Other	747	411	398	406	388
Total noninterest income	$14,077	$10,141	$7,174	$9,517	$11,423

2016 v. 2015

During the twelve months ended December 31, 2016, noninterest income totaled $14.1 million, representing an increase of $3.9 million, or 38.8% compared to $10.1 million for the twelve months ended December 31, 2015. The increase in noninterest income was primarily driven by an increase of $3.4 million, or 37.8%, in mortgage banking activities, resulting from increases in mortgage originations and sales as well as higher gain on sale margins.

2015 v. 2014

During the twelve months ended December 31, 2015, noninterest income totaled $10.1 million, representing an increase of $3.0 million, or 41.4%, compared to $7.2 million for the twelve months ended December 31, 2014. The increase in noninterest income was primarily driven by an increase of $3.4 million, or 60.5%, in mortgage banking activities, resulting primarily from higher originations volumes. The increase in mortgage banking activities was partially offset by $0.5 million decline in gains related to sales of securities as no securities were sold during 2015.

Noninterest Expense

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

	Twelve Months Ended December 31,				
(amounts in thousands)	2016	2015	2014	2013	2012
Salaries and employee benefits	$17,387	$14,271	$12,348	$10,250	$8,529
Marketing, advertising and promotion	1,823	1,756	1,455	1,858	1,362
Consulting and professional services	3,143	2,374	1,902	2,152	1,422
Data processing	1,127	1,016	995	911	897
Loan expenses	891	631	626	799	1,097
Premises and equipment	3,699	2,768	2,937	2,196	1,711
Deposit insurance premium	1,159	643	591	451	455
Other	2,222	1,824	1,808	1,865	1,140
Total noninterest expense	$31,451	$25,283	$22,662	$20,482	$16,613

2016 v. 2015

Noninterest expense for the twelve months ended December 31, 2016 was $31.5 million, compared to $25.3 million for the twelve months ended December 31, 2015. The increase of $6.2 million, or 24.4%, compared to the twelve months ended December 31, 2015 was primarily due to increases of $3.1 million in salaries and employee benefits, $0.9 million in premises and equipment expenses, $0.8 million in consulting and professional services and $0.5 million in deposit insurance premium expenses. The increase in salaries and employee benefits resulted from personnel growth and higher incentive compensation related to increased mortgage production. The increase in premises and equipment was primarily due to expenses associated with the Company’s new headquarters location. The increase in consulting and professional fees was due to higher legal fees incurred in the normal course of business commensurate with the Company’s growth and certain consulting projects that occurred during 2016. The increase in deposit insurance premium was due to the new methodology implemented by the FDIC as of July 1, 2016, which places a heavier weighting on year-over-year asset growth used to determine the cost of FDIC deposit insurance.

2015 v. 2014

Noninterest expense for the twelve months ended December 31, 2015 was $25.3 million, compared to $22.7 million for the twelve months ended December 31, 2014. The increase of $2.6 million, or 11.6%, compared to the twelve months ended December 31, 2014 was primarily due to increases of $1.9 million in salaries and employee benefits, $0.5 million in consulting and professional services and $0.3 million in marketing, advertising and promotion. The increase in salaries and employee benefits was attributable to increased headcount driven by the Company's continued growth, higher equity compensation expense, and increased short term incentive compensation. The increase in consulting and professional services was due primarily to higher legal fees incurred in the normal course of business commensurate with the Company’s growth. The increase in marketing, advertising and promotion was due to higher sponsorships and online channel origination costs related to the increase in mortgage origination activity.

Financial Condition

The following table presents summary balance sheet data as of the end of the last five years.

(amounts in thousands)	December 31,				
Balance Sheet Data:	2016	2015	2014	2013	2012
Total assets	$1,854,335	$1,269,870	$970,503	$802,342	$636,367
Loans	1,250,789	953,859	732,426	501,153	358,161
Total securities	473,371	213,698	137,518	181,409	156,693
Loans held-for-sale	27,101	36,518	34,671	28,610	63,264
Noninterest-bearing deposits	31,166	23,700	21,790	19,386	13,187
Interest-bearing deposits	1,431,701	932,354	736,808	653,709	517,484
Total deposits	1,462,867	956,054	758,598	673,095	530,691
Total shareholders' equity	153,942	104,330	96,785	90,908	61,350

Total assets increased $584.5 million, or 46.0%, to $1.9 billion as of December 31, 2016 as compared to $1.3 billion as of December 31, 2015. Balance sheet expansion during 2016 was funded by strong deposit growth of $506.8 million, or 53.0%, and supplemented by increases in shareholders' equity and subordinated debt resulting from capital offerings during the year. This funding was deployed to support total loan growth of $296.9 million, or 31.1%, and to purchase investment securities with total securities balances increasing $259.7 million, or 121.5%.

Loan Portfolio Analysis

The following table provides information regarding the Company's loan portfolio as of the end of the last five years.

	December 31,														
(dollars in thousands)	2016			2015			2014			2013			2012		
Commercial loans															
Commercial and industrial	$102,437	8.2	%	$102,000	10.7	%	$77,232	10.5	%	$55,168	11.0	%	$14,271	4.0	%
Owner-occupied commercial real estate	57,668	4.6	%	44,462	4.7	%	34,295	4.7	%	18,165	3.6	%	12,644	3.5	%
Investor commercial real estate	13,181	1.0	%	16,184	1.7	%	22,069	3.0	%	26,574	5.3	%	72,274	20.2	%
Construction	53,291	4.3	%	45,898	4.8	%	24,883	3.4	%	28,200	5.6	%	11,321	3.2	%
Single tenant lease financing	606,568	48.5	%	374,344	39.2	%	192,608	26.3	%	84,173	16.8	%	—	0.0	%
Total commercial loans	833,145	66.6	%	582,888	61.1	%	351,087	47.9	%	212,280	42.3	%	110,510	30.9	%
Consumer loans															
Residential mortgage	205,554	16.4	%	214,559	22.5	%	220,612	30.1	%	138,418	27.6	%	110,975	31.0	%
Home equity	35,036	2.8	%	43,279	4.5	%	58,434	8.0	%	37,906	7.6	%	6,519	1.8	%
Other consumer	173,449	13.9	%	108,312	11.4	%	97,094	13.3	%	107,562	21.5	%	126,486	35.3	%
Total consumer loans	414,039	33.1	%	366,150	38.4	%	376,140	51.4	%	283,886	56.7	%	243,980	68.1	%

Total commercial and consumer loans	1,247,184	99.7 %	949,038	99.5 %	727,227	99.3 %	496,166	99.0 %	354,490	99.0 %
Net deferred loan origination costs and premiums and discounts on purchased loans	3,605	0.3 %	4,821	0.5 %	5,199	0.7 %	4,987	1.0 %	3,671	1.0 %
Total loans	1,250,789	100.0 %	953,859	100.0 %	732,426	100.0 %	501,153	100.0 %	358,161	100.0 %
Allowance for loan losses	(10,981)		(8,351)		(5,800)		(5,426)		(5,833)	
Net loans	$1,239,808		$945,508		$726,626		$495,727		$352,328	

The Company continued to experience strong loan growth as total loans rose to $1.3 billion as of December 31, 2016, an increase of $296.9 million, or 31.1%, compared to December 31, 2015. Driving this growth was sustained production in single tenant lease financing with balances increasing $232.2 million, or 62.0%, during 2016 as market conditions for this product remained favorable and the Company expanded its relationships with borrowers and financing partners. Additionally, other consumer loans increased $65.1 million, or 60.1%, during 2016 due to the Company's recent initiative in financing home improvement loans as well as increased originations in horse trailer and recreational vehicle loans.

Loan Maturities and Rate Sensitivity

The following table shows the contractual maturity distribution intervals of the outstanding loans in our portfolio as of December 31, 2016.

(amounts in thousands)	Within 1 Year	1-3 Years	4-5 Years	Beyond 5 Years	Total
Commercial loans					
Commercial and industrial	$24,596	$26,056	$32,352	$19,433	$102,437
Owner-occupied commercial real estate	1,158	10,621	18,917	26,972	57,668
Investor commercial real estate	2,635	3,556	209	6,781	13,181
Construction	26,121	23,696	—	3,474	53,291
Single tenant lease financing	350	40,689	116,945	448,584	606,568
Total commercial loans	54,860	104,618	168,423	505,244	833,145
Consumer loans					
Residential mortgage	18,049	1,599	840	185,066	205,554
Home equity	—	167	183	34,686	35,036
Other consumer	1,569	6,817	30,053	135,010	173,449
Total consumer loans	19,618	8,583	31,076	354,762	414,039
Total commercial and consumer loans	$74,478	$113,201	$199,499	$860,006	$1,247,184

The following table shows the rate sensitivity of the outstanding loans in our portfolio by the contractual maturity distribution intervals as of December 31, 2016.

(amounts in thousands)	Within 1 Year	1-3 Years	4-5 Years	Beyond 5 Years	Total
Predetermined rates	$26,273	$79,551	$189,956	$676,775	$972,555
Variable rate	48,205	33,650	9,543	183,231	274,629
Total commercial and consumer loans	$74,478	$113,201	$199,499	$860,006	$1,247,184

Loan Approval Procedures and Authority

Our lending activities follow written, non-discriminatory policies with loan approval limits approved by the Board of Directors of the Bank. Loan officers have underwriting and approval authorization of varying amounts based on their lending experience and product type. Additionally, based on the amount of the loan, multiple approvals may be required. Based on the Company’s legal lending limit, the maximum the Bank could lend to any one borrower at December 31, 2016 was $26.0 million.

Our goal is to have a well-diversified and balanced loan portfolio. In order to manage our loan portfolio risk, we establish concentration limits by borrower, product type, industry and geography. To supplement our internal loan review resources, we have engaged an independent third-party loan review group, which is a key component of our overall risk management process related to credit administration.

Asset Quality

(dollars in thousands)	December 31, 2016	2015	2014	2013	2012
Nonaccrual loans					
Commercial loans:					
Investor commercial real estate	$—	$—	$87	$1,054	$2,362
Total commercial loans	—	—	87	1,054	2,362
Consumer loans:					
Residential mortgage	1,024	103	25	630	1,389
Other consumer	59	64	123	150	155
Total consumer loans	1,083	167	148	780	1,544
Total nonaccrual loans	1,083	167	235	1,834	3,906
Past Due 90 days and accruing loans					
Consumer loans:					
Residential mortgage	—	—	57	—	450
Other consumer	—	—	4	18	21
Total consumer loans	—	—	61	18	471
Total past due 90 days and accruing loans	—	—	61	18	471
Total nonperforming loans	1,083	167	296	1,852	4,377
Other real estate owned					
Investor commercial real estate	4,488	4,488	4,488	4,013	3,401
Residential mortgage	45	—	—	368	265
Total other real estate owned	4,533	4,488	4,488	4,381	3,666
Other nonperforming assets	85	85	82	956	2,253
Total nonperforming assets	$5,701	$4,740	$4,866	$7,189	$10,296
Total nonperforming loans to total loans	0.09 %	0.02 %	0.04 %	0.37 %	1.23 %
Total nonperforming assets to total assets	0.31 %	0.37 %	0.50 %	0.90 %	1.62 %

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

Impaired loans include nonperforming loans but also include loans modified in troubled debt restructurings ("TDRs") where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance, or other actions intended to maximize collection.

Nonperforming loans are comprised of total nonaccrual loans and loans 90 days past due and accruing. Nonperforming assets include nonperforming loans, other real estate owned and other nonperforming assets, which consist of repossessed assets. Nonperforming assets also included investments that were classified as other-than-temporarily impaired as of December 31, 2012.

Troubled Debt Restructurings

(amounts in thousands)	December 31, 2016	2015	2014	2013	2012
Troubled debt restructurings – nonaccrual	$—	$—	$5	$27	$558
Troubled debt restructurings – performing	757	1,115	1,125	1,243	1,412
Total troubled debt restructurings	$757	$1,115	$1,130	$1,270	$1,970

The increase in total nonperforming assets was due primarily to an increase in nonaccrual residential mortgage loans. Total nonperforming loans increased $0.9 million, or 548.5%, to $1.1 million as of December 31, 2016 compared to $0.2 million as of December 31, 2015. As a result of the increase in nonperforming loans, the ratio of nonperforming loans to total loans increased to 0.09% as of December 31, 2016 compared to 0.02% as of December 31, 2015. While total nonperforming assets increased year-over-year, the pace of total asset growth was higher and, as a result, the ratio of nonperforming assets to total assets improved to 0.31% as of December 31, 2016 compared to 0.37% as of December 31, 2015.

As of December 31, 2016 and December 31, 2015, the Company had one commercial property in other real estate owned with a carrying value of $4.5 million. This balance primarily consists of a property with two buildings which are residential units adjacent to a university campus. Improvements to the property have been made in collaboration with the university and the property continues to be occupied. As of December 31, 2016, the Company also had one residential property in other real estate owned with a carrying value of less than $0.1 million.

Allowance for Loan Losses

(amounts in thousands)	December 31, 2016	2015	2014	2013	2012
Balance, beginning of period	$8,351	$5,800	$5,426	$5,833	$5,656
Provision charged to expense	4,330	1,946	349	324	2,852
Losses charged off					
Commercial and industrial	(1,582)	—	(14)	—	—
Owner-occupied commercial real estate	—	—	—	—	—
Investor commercial real estate	—	—	—	(238)	(1,464)
Construction	—	—	—	—	—
Single tenant lease financing	—	—	—	—	—
Residential mortgage	(134)	(185)	(247)	(164)	(406)
Home equity	(33)	—	—	—	(103)
Other consumer	(440)	(451)	(596)	(810)	(1,438)
Total losses charged off	(2,189)	(636)	(857)	(1,212)	(3,411)
Recoveries					
Commercial and industrial	187	—	—	70	75
Owner-occupied commercial real estate	—	—	—	—	—
Investor commercial real estate	—	500	460	—	—
Construction	—	—	—	—	1
Single tenant lease financing	—	—	—	—	—
Residential mortgage	30	407	38	98	43
Home equity	13	1	—	—	104
Other consumer	259	333	384	313	513
Total recoveries	489	1,241	882	481	736
Balance, end of period	$10,981	$8,351	$5,800	$5,426	$5,833

The determination of the allowance for loan losses and the related provision for loan losses are components of our significant accounting policies as discussed within Note 1 to the consolidated financial statements. The adequacy of the ALLL and the provision are based on the review and evaluation of the loan portfolio and reflect management’s assessment of the risks and potential losses within the portfolio. This evaluation considers historical loss experience as well as qualitative factors such as economic and business conditions, portfolio growth, concentrations of credit in the portfolio, trends in risk grades and delinquencies within the portfolio and changes in our lending policies and practices.

Management actively monitors asset quality and, when appropriate, charges off loans against the allowance for loan losses. Although management believes it uses the best information available to make determinations with respect to the allowance for loan losses, future adjustments may be necessary if economic conditions differ substantially from the economic conditions in the assumptions used to determine the size of the allowance for loan losses.

The allowance for loan losses was $11.0 million as of December 31, 2016, compared to $8.4 million as of December 31, 2015. The increase of $2.6 million, or 31.5%, was due primarily to the continued growth in commercial loan balances. During the twelve months ended December 31, 2016, the Company recorded net charge offs of $1.7 million, compared to net recoveries of $0.6 million during the twelve months ended December 31, 2015. During the twelve months ended December 31, 2016, the net charge offs were driven primarily by a $1.6 million charge off of a single commercial and industrial loan. The charge offs were partially offset by recoveries of $0.5 million, primarily related to the commercial and industrial loan that was charged off and other consumer loans. During the twelve months ended December 31, 2015, the net recoveries were driven primarily by a $0.5 million recovery of an investor commercial real estate loan that had been previously charged-off and a $0.4 million recovery of a residential mortgage loan, of which $0.3 million related to the recapture of principal previously charged-off. The recoveries were partially offset by charge-offs of $0.6 million in residential mortgage and other consumer loans.

The allowance for loan losses as a percentage of total loans remained stable at 0.88% as of December 31, 2016 compared to December 31, 2015, and decreased as a percentage of nonperforming loans to 1,013.9% as of December 31, 2016, from to 5,000.6% as of December 31, 2015.

Investment Securities

In managing the Company's investment securities portfolio, management focuses on providing an adequate level of liquidity and establishing an interest rate-sensitive position, while earning an adequate level of investment income without taking undue risk. Investment securities that are acquired and held principally for the purpose of selling them in the near term with the objective of generating economic profits on short-term differences in market characteristics are classified as securities held for trading. Securities that we intend to hold until maturity are classified as held-to-maturity securities, and all other investment securities are classified as available-for-sale. The carrying values of available-for-sale investment securities are adjusted for unrealized gains or losses as a valuation allowance and any gain or loss is reported on an after-tax basis as a component of other comprehensive income (loss).

The Company periodically evaluates each security in an unrealized loss position to determine if the impairment is temporary or other-than-temporary. As of December 31, 2016, the unrealized losses in the Company's investment securities portfolio were due primarily to interest rate changes. The Company has the ability and intent to hold all investment securities with identified impairments resulting from interest rate changes to the earlier of the forecasted recovery or the maturity of the underlying investment security. As of December 31, 2016, the Company did not have any investment securities of a single issuer that exceeded 10% of shareholders' equity. The term "issuer" excludes the U.S. Government and its sponsored agencies and corporations.

The following tables present the amortized cost and approximate fair value of the Company's investment securities portfolio by security type as of the end of the last five years.

(amounts in thousands)	December 31,				
Amortized Cost	2016	2015	2014	2013	2012
Securities available-for-sale					
U.S. Government-sponsored agencies	$92,599	$38,093	$13,680	$57,569	$18,666
Municipal securities	97,647	21,091	—	46,126	39,999
Mortgage-backed securities	238,354	113,948	117,134	76,371	78,478
Asset-backed securities	19,470	19,444	4,913	—	—

Corporate securities	20,000	20,000	—	—	—
Other securities	3,000	3,000	2,000	5,025	16,753
Total securities available-for-sale	471,070	215,576	137,727	185,091	153,896
Securities held-to-maturity					
Municipal securities	10,171	—	—	—	—
Corporate securities	6,500	—	—	—	—
Total securities held-to-maturity	16,671	—	—	—	—
Total securities	$487,741	$215,576	$137,727	$185,091	$153,896

Approximate Fair Value	December 31, 2016	2015	2014	2013	2012
Securities available-for-sale					
U.S. Government-sponsored agencies	$91,896	$37,750	$13,552	$56,277	$19,618
Municipal securities	91,886	21,469	—	46,323	42,540
Mortgage-backed securities	231,641	113,052	117,048	75,173	79,942
Asset-backed securities	19,534	19,361	4,912	—	—
Corporate securities	18,811	19,087	—	—	—
Other securities	2,932	2,979	2,006	3,636	14,593
Total securities available-for-sale	456,700	213,698	137,518	181,409	156,693
Securities held-to-maturity					
Municipal securities	9,673	—	—	—	—
Corporate securities	6,524	—	—	—	—
Total securities held-to-maturity	16,197	—	—	—	—
Total securities	$472,897	$213,698	$137,518	$181,409	$156,693

The approximate fair value of investment securities available-for-sale increased $243.0 million, or 113.7%, to $456.7 million as of December 31, 2016 compared to $213.7 million as of December 31, 2015. The increase was due primarily to increases of $118.6 million in mortgage-backed securities, $70.4 million in municipal securities, $54.1 million in U.S. Government-sponsored agencies and $0.2 million in asset-backed securities, partially offset by a decrease of $0.3 million in corporate securities. The increases were primarily a result of investment purchases during the twelve months ended December 31, 2016, as the Company deployed funds generated through deposit growth to further diversify the securities portfolio and enhance net interest income, while supporting liquidity and interest rate risk management. As of December 31, 2016, the Company had securities with an amortized cost basis of $16.7 million designated as held-to-maturity, reflecting additional investment purchases made during 2016.

Investment Maturities

The following table summarizes the contractual maturity schedule of the Company's investment securities at their amortized cost and their weighted average yields at December 31, 2016.

	1 year or less		More than 1 year to 5 years		More than 5 years to 10 years		More than 10 years		Total	
(dollars in thousands)	Amortized Cost	Wtd. Avg. Yield	Amortized Cost	Wtd. Avg. Yield	Amortized Cost	Wtd. Avg. Yield	Amortized Cost	Wtd. Avg. Yield	Amortized Cost	Wtd. Avg. Yield
Securities:										
U.S. Government-sponsored agencies	$ —	0.00 %	$1,067	(0.40)%	$21,131	2.22 %	$70,401	1.87 %	$92,599	1.92 %
Municipal securities	—	0.00 %	—	0.00 %	10,071	2.30 %	97,747	2.92 %	107,818	2.86 %
Mortgage-backed securities	—	0.00 %	—	0.00 %	1,004	2.43 %	237,350	2.33 %	238,354	2.33 %
Asset-backed securities	—	0.00 %	—	0.00 %	19,470	3.07 %	—	0.00 %	19,470	3.07 %
Corporate securities	—	0.00 %	—	0.00 %	16,500	4.34 %	10,000	4.00 %	26,500	4.21 %
Total securities [1]	$ —	0.00 %	$1,067	(0.40)%	$68,176	2.99 %	$415,498	2.43 %	$484,741	2.51 %

[1] A $3.0 million investment security has been excluded from this table because the security does not have a maturity date.

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Deposits

The following table presents the composition of the Company's deposit base as of the end of the last five years.

	December 31,									
(dollars in thousands)	2016		2015		2014		2013		2012	
Noninterest-bearing deposits	$31,166	2.1 %	$23,700	2.5 %	$21,790	2.9 %	$19,386	2.9 %	$13,187	2.5 %
Interest-bearing demand deposits	93,074	6.4 %	84,241	8.8 %	74,238	9.8 %	73,748	11.0 %	73,660	13.9 %
Regular savings accounts	27,955	1.9 %	22,808	2.4 %	20,776	2.7 %	14,330	2.1 %	11,583	2.2 %
Money market accounts	340,240	23.3 %	341,732	35.7 %	267,046	35.2 %	255,169	37.9 %	202,388	38.1 %
Certificates of deposits	964,819	65.9 %	470,736	49.2 %	361,202	47.6 %	292,685	43.5 %	211,542	39.9 %
Brokered deposits	5,613	0.4 %	12,837	1.4 %	13,546	1.8 %	17,777	2.6 %	18,311	3.4 %
Total	$1,462,867	100.0%	$956,054	100.0%	$758,598	100.0%	$673,095	100.0%	$530,671	100.0%

Total deposits increased $506.8 million, or 53.0%, to $1.5 billion as of December 31, 2016 as compared to $956.1 million as of December 31, 2015. During 2016, the Company determined to enhance both balance sheet liquidity and asset sensitivity through strategies to increase term deposit funding, resulting in growth in certificates of deposit of $494.1 million, or 105.0%. The increase in total deposits was also supplemented by growth in interest-bearing demand deposits, noninterest-bearing deposits and savings accounts.

The following tables present contractual interest rates paid on time deposits, their scheduled maturities, and the scheduled maturities for time deposits $100,000 or greater.

Time Deposits

(dollars in thousands)	December 31, 2016
Interest Rate:	
<1.00%	$38,165
1.00% – 1.99%	762,383
2.00% – 2.99%	164,271
3.00% – 3.99%	3,084
4.00% – 4.99%	2,529
Total	$970,432

Time Deposit Maturities at December 31, 2016

	Period to Maturity					
(dollars in thousands)	Less than 1 year	> 1 year to 2 years	> 2 years to 3 years	More than 3 years	Total	Percentage of Total Certificate Accounts
Interest Rate:						
<1.00%	$38,165	$—	$—	$—	$38,165	3.9 %
1.00% – 1.99%	346,365	212,378	26,385	177,255	762,383	78.6 %
2.00% – 2.99%	95	—	4,028	160,148	164,271	16.9 %

3.00% – 3.99%	3,084	—	—	—	3,084	0.3	%
4.00% – 4.99%	—	2,529	—	—	2,529	0.3	%
Total	$387,709	$214,907	$30,413	$337,403	$970,432	100.0	%

Time Deposit Maturities of $100,000 or Greater

(dollars in thousands)	December 31, 2016
Maturity Period:	
3 months or less	$95,692
Over 3 through 6 months	79,632
Over 6 through 12 months	357,772
Over 12 months	313,677
Total	$846,773

Federal Home Loan Bank Advances

Although deposits are the primary source of funds for our lending and investment activities and for general business purposes, we may use short term advances from the FHLB to manage liquidity needs and longer term advances to supplement balance sheet growth and manage interest rate risk. The following table is a summary of FHLB borrowings for the periods indicated.

	At or for the Twelve Months Ended December 31,		
(dollars in thousands)	2016	2015	2014
Balance outstanding at end of period	$189,981	$190,957	$106,897
Average amount outstanding during period	164,606	134,689	42,597
Maximum outstanding at any month end during period	197,980	190,957	106,897
Weighted average interest rate at end of period	1.21 %	0.81 %	1.58 %
Weighted average interest rate during period	1.20 %	1.09 %	2.23 %

Liquidity and Capital Resources

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

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

The Company maintains cash and investment securities that qualify as liquid assets to maintain adequate liquidity to ensure safe and sound operations and meet its financial commitments. At December 31, 2016, on a consolidated basis, the Company had $496.4 million in cash and cash equivalents, interest-bearing time deposits and investment securities available-for-sale and $27.1 million in loans held-for-sale that were generally available for its cash needs. The Company can also generate funds from wholesale funding sources and collateralized borrowings. At December 31, 2016, the Bank had the ability to borrow an additional $273.6 million in advances from the FHLB and correspondent bank Fed Funds lines of credit.

The Company is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, the Company is responsible for paying any dividends declared to its common shareholders and interest and principal on outstanding debt. The Company's primary sources of funds are cash maintained at the holding company level and dividends from the Bank, the payment of which is subject to regulatory limits. At December 31, 2016, the Company, on an unconsolidated basis, had $29.4 million in cash generally available for its cash needs.

The Company uses its sources of funds primarily to meet ongoing financial commitments, including withdrawals by depositors, credit commitments to borrowers, operating expenses and capital expenditures. At December 31, 2016, approved outstanding loan commitments, including unused lines of credit, amounted to $132.5 million. Certificates of deposit scheduled to mature in one year or less at December 31, 2016 totaled $387.7 million. Generally, the Company believes that a majority of maturing deposits will remain with the Bank.

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. Effective February 21, 2017, the Company entered into a Fourth Acknowledgment, Confirmation and Amendment that, among other things, replaced the principal amount of the loan with $3.6 million and extended the maturity of the loan to March 6, 2020. 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.

Reconciliation of Non-GAAP Financial Measures

This annual report on Form 10-K contains financial information determined by methods other than in accordance with U.S. generally accepted accounting principles (“GAAP”). Non-GAAP financial measures, specifically tangible common equity, tangible assets, average tangible common equity, tangible book value per common share, return on average tangible common equity and the ratio of tangible common equity to tangible assets are used by management to measure the strength of its capital and its ability to generate earnings on tangible capital invested by its shareholders. Although the Company believes these non-GAAP measures provide a greater understanding of its business, they should not be considered a substitute for financial measures determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures are included in the following table.

(dollars in thousands, except share and per share data)	At or for the Twelve Months Ended December 31, 2016	2015	2014	2013	2012
Total equity - GAAP	$153,942	$104,330	$96,785	$90,908	$61,350
Adjustments:					
Goodwill	(4,687)	(4,687)	(4,687)	(4,687)	(4,687)
Tangible common equity	$149,255	$99,643	$92,098	$86,221	$56,663
Total assets - GAAP	$1,854,335	$1,269,870	$970,503	$802,342	$636,367
Adjustments:					
Goodwill	(4,687)	(4,687)	(4,687)	(4,687)	(4,687)
Tangible assets	$1,849,648	$1,265,183	$965,816	$797,655	$631,680
Total common shares outstanding	6,478,050	4,481,347	4,439,575	4,448,326	2,815,094
Book value per common share	$23.76	$23.28	$21.80	$20.44	$21.79
Effect of goodwill	(0.72)	(1.04)	(1.06)	(1.06)	(1.66)
Tangible book value per common share	$23.04	$22.24	$20.74	$19.38	$20.13
Total shareholders’ equity to assets ratio	8.30%	8.22%	9.97%	11.33%	9.64%
Effect of goodwill	(0.23)%	(0.34)%	(0.43)%	(0.52)%	(0.67)%
Tangible common equity to tangible assets ratio	8.07%	7.88%	9.54%	10.81%	8.97%
Total average equity - GAAP	$124,023	$100,428	$93,796	$64,704	$58,934
Adjustments:					
Average goodwill	(4,687)	(4,687)	(4,687)	(4,687)	(4,687)
Average tangible common equity	$119,336	$95,741	$89,109	$60,017	$54,247
Return on average shareholders' equity	9.74%	8.89%	4.61%	7.10%	9.51%
Effect of goodwill	0.38%	0.44%	0.24%	0.55%	0.82%
Return on average tangible common equity	10.12%	9.33%	4.85%	7.65%	10.33%

Critical Accounting Policies and Estimates

Allowance for Loan Losses. We believe the allowance for loan losses is the critical accounting policy that requires the most significant judgments and assumptions used in the preparation of our consolidated financial statements. An estimate of potential losses inherent in the loan portfolio is determined and an allowance for those losses is established by considering factors including historical loss rates, expected cash flows, and estimated collateral values. The allowance for loan losses represents management's best estimate of losses inherent in the existing loan portfolio. The allowance for loan losses is increased by the provision for loan losses charged to expense and reduced by loans charged off, net of recoveries. Management evaluates the allowance for loan losses quarterly. If the underlying assumptions later prove to be inaccurate based on subsequent loss evaluations, the allowance for loan losses is adjusted.

Management estimates the appropriate level of allowance for loan losses by separately evaluating impaired and non-impaired loans. A specific allowance is assigned to an impaired loan when expected cash flows or collateral do not justify the carrying amount of the loan. The methodology used to assign an allowance to a non-impaired loan is more subjective. Generally, the allowance assigned to non-impaired loans is determined by applying historical loss rates to existing loans with similar risk characteristics, adjusted for qualitative factors including changes in economic conditions, changes in underwriting standards, and changes in concentrations of credit risk, and changes in industry conditions. Because the economic and business climate in any given industry or market, and its impact on any given borrower, can change rapidly, the risk profile of the loan portfolio is periodically assessed and adjusted when appropriate. Notwithstanding these procedures, there still exists the possibility that the assessment could prove to be significantly incorrect and that an immediate adjustment to the allowance for loan losses would be required.

Investments in Debt and Equity Securities. We classify investments in debt and equity securities as available-for-sale in accordance with Accounting Standards Codification, or ASC, Topic 320, “Accounting for Certain Investments in Debt and Equity Securities.” Securities classified as held-to-maturity would be recorded at cost or amortized cost. Available-for-sale securities are carried at fair value. Fair value calculations are based on quoted market prices, when such prices are available. If quoted market prices are not available, estimates of fair value are computed using a variety of pricing sources, including Reuters/EJV, Interactive Data and Standard & Poors. Due to the subjective nature of the valuation process, it is possible that the actual fair values of these investments could differ from the estimated amounts, thereby affecting our financial position, results of operations and cash flows. If the estimated value of investments is less than the cost or amortized cost, management evaluates whether an event or change in circumstances has occurred that may have a significant adverse effect on the fair value of the investment. If such an event or change has occurred and management determines that the impairment is other-than-temporary, a further determination is made as to the portion of impairment that is related to credit loss. The impairment of the investment that is related to the credit loss is expensed in the period in which the event or change occurred. The remainder of the impairment is recorded in other comprehensive income (loss).

Other Real Estate Owned (“OREO”). OREO acquired through loan foreclosure is initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. The adjustment at the time of foreclosure is recorded through the allowance for loan losses. Due to the subjective nature of establishing the fair value when the asset is acquired, the actual fair value of the OREO or foreclosed asset could differ from the original estimate. If it is determined that fair value declines subsequent to foreclosure, a valuation adjustment is recorded through noninterest expense. Net operating costs associated with the assets after acquisition are also recorded as noninterest expense. Gains and losses on the disposition of OREO and foreclosed assets are netted and posted through noninterest income.

Impairment of Goodwill. As a result of the Company’s previous acquisition of Landmark Financial Corporation, goodwill, an intangible asset with an indefinite life, is reflected on the balance sheet. Goodwill is evaluated for impairment annually, unless there are factors present that indicate a potential impairment, in which case, the goodwill impairment test is performed more frequently.

Deferred Income Tax Assets/Liabilities. Our net deferred income tax asset arises from differences in the dates that items of income and expense enter into our reported income and taxable income. Deferred tax assets and liabilities are established for these items as they arise. From an accounting standpoint, deferred tax assets are reviewed to determine if they are realizable based on the historical level of taxable income, estimates of future taxable income and the reversals of deferred tax liabilities. In most cases, the realization of the deferred tax asset is based on future profitability. If we were to experience net operating losses for tax purposes in a future period, the realization of deferred tax assets would be evaluated for a potential valuation reserve.

Recent Accounting Pronouncements

Refer to Note 21 to the Company’s consolidated financial statements.

Off-Balance Sheet Arrangements

In the ordinary course of business, the Company enters into financial transactions to extend credit and forms of commitments that may be considered off-balance sheet arrangements. We enter into forward contracts relating to our mortgage banking business to hedge the exposures we have from commitments to extend new residential mortgage loans to our customers and from our mortgage loans held-for-sale. At December 31, 2016 and December 31, 2015, we had commitments to sell residential real estate loans of $61.0 million and $42.7 million, respectively. These contracts mature in less than one year.

Contractual Obligations

The following table presents significant fixed and determinable contractual obligations and significant commitments as of December 31, 2016. Further discussion of each obligation or commitment is included in the referenced note to the consolidated financial statements.

		Payments Due In				
(dollars in thousands)	Note Reference	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Deposits without stated maturity[1]	7	$492,435	$—	$—	$—	$492,435
Certificates of deposits and brokered deposits[1]	7	387,709	245,320	337,403	—	970,432
FHLB advances[1]	8	42,000	33,000	90,000	25,000	190,000
Subordinated debt[1]	9	—	—	3,000	33,578	36,578
Operating lease commitments	14	720	1,480	1,075	344	3,619
Total contractual obligations		$922,864	$279,800	$431,478	$58,922	$1,693,064

[1] Amounts do not include associated interest payments.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

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

Presented below is the estimated impact on the Company's NII and EVE position as of December 31, 2016, assuming parallel shifts in interest rates:

	% Change from Base Case for Parallel Changes in Rates		
	-100 Basis Points[1]	+100 Basis Points	+200 Basis Points
NII - next twelve months	0.68%	0.50 %	1.31 %
EVE	2.16%	(7.26)%	(14.99)%

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

100 basis point downward shock.

The Company’s objective is to manage the balance sheet with a bias toward asset sensitivity while simultaneously balancing the potential earnings impact of this strategy. A “risk-neutral” position refers to the absence of a strong bias toward either asset or liability sensitivity. An “asset sensitive” position refers to when the characteristics of the balance sheet are expected to generate higher net interest income when interest rates, primarily short-term rates, increase as rates earned on interest-earning assets would reprice upward more quickly or in greater quantities than rates paid on interest-bearing liabilities would reprice. A “liability sensitive” position refers to when the characteristics of the balance sheet are expected to generate lower net interest income when short-term interest rates increase as rates paid on interest-bearing liabilities would reprice upward more quickly or in greater quantities than rates earned on interest-earning assets.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements and notes thereto required pursuant to this Item begin on page F-1 of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

The Company performed an evaluation under the supervision and with the participation of management, including the Company’s principal executive officer and principal financial officer, to assess the effectiveness of the design and operation of our disclosure controls and procedures under the Exchange Act. Based on that evaluation, our management, including our principal executive officer and principal financial officer, concluded that our disclosure controls and procedures were effective as of December 31, 2016.

Report of Management's Assessment of Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company, including accounting and other internal control systems that, in the opinion of management, provide reasonable assurance that (1) transactions are properly authorized, (2) the assets are properly safeguarded, and (3) transactions are properly recorded and reported to permit the preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States. The Company’s management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013). Based on that assessment, management concluded that, as of December 31, 2016, the Company’s internal control over financial reporting is effective based on those criteria. The Company’s internal control over financial reporting as of December 31, 2016 has been audited by BKD, LLP, an independent registered public accounting firm, as stated in its report appearing on page F-2.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company’s internal control over financial reporting during the quarter ended December 31, 2016, that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Certain information required by Part III is incorporated by reference from our definitive Proxy Statement for our 2017 Annual Meeting of Shareholders (the "Proxy Statement"), which we intend to file with the SEC pursuant to Regulation 14A within 120 days after December 31, 2016. Except for those portions specifically incorporated by reference from our Proxy Statement, no other portions of the Proxy Statement are deemed to be filed as part of this report.

Item 10. Directors, Executive Officers and Corporate Governance

Directors

Incorporated into this Item by reference is the information set forth under the caption "Proposal No. 1 – Election of Directors" in the Proxy Statement.

Executive Officers

Our executive officers are as follows:

Name	Age	Position
David B. Becker	63	Chairman, President, Chief Executive Officer and Director
Kenneth J. Lovik	47	Executive Vice President and Chief Financial Officer
Nicole S. Lorch	42	Executive Vice President and Chief Operating Officer
C. Charles Perfetti	72	Executive Vice President and Secretary

David B. Becker has served as our Chairman of the Board since 2006 and as our President and Chief Executive Officer since 2007. Mr. Becker is the founder of the Bank, and has served as an officer and director of the Bank since 1998.

Kenneth J. Lovik has served as Executive Vice President and Chief Financial Officer of the Company since January 2017. Mr. Lovik joined the Company in August 2014 as Senior Vice President and Chief Financial Officer. Previously, he served as Senior Vice President, Investor Relations and Corporate Development, at First Financial Bancorp, a publicly traded bank holding company headquartered in Cincinnati, Ohio, from February 2013 to May 2014. Prior to that, he served as its Vice President, Investor Relations and Corporate Development, from 2010 to February 2013. Before First Financial Bancorp, he served as Vice President – Investment Banking at Milestone Advisors, LLC from October 2008 to September 2009 and in the same position at Howe Barnes Hoefer & Arnett, Inc. from 2004 to 2008.

Nicole S. Lorch has served as Executive Vice President and Chief Operating Officer since January 2017. Ms. Lorch joined the Company as Director of Marketing in 1999 and served as Vice President, Marketing & Technology from 2003 to 2011 and Senior Vice President, Retail Banking from 2011 to January 2017. She previously served as Director of Marketing at Virtual Financial Services, an online banking services provider, from 1996 to 1999.

C. Charles Perfetti has served as Executive Vice President since January 2017 and Secretary since May 2014. He previously served as Senior Vice President from 2012 until January 2017. Mr. Perfetti joined First Internet Bancorp in 2007 upon our acquisition of Landmark Financial Corporation, where he had served as President from 1989 to 2007. He previously conducted independent real estate and government consulting and served as the Chief Investment Manager of the State of Indiana from 1979 to 1986.

Executive officers are elected annually by our Board of Directors and serve a one-year period or until their successors are elected. None of the above-identified executive officers are related to each other or to any of our directors.

Code of Business Conduct and Ethics

We have adopted a code of business conduct and ethics that applies to all of our directors and officers and other employees, including our principal executive officer and principal financial officer. This code is publicly available through the Corporate Governance section of our website at www.firstinternetbancorp.com. To the extent permissible under applicable law, the rules of the SEC or NASDAQ listing standards, we intend to post on our website any amendment to the code of business conduct and ethics, or any grant of a waiver from a provision of the code of business conduct and ethics, that requires disclosure under applicable law, the rules of the SEC or NASDAQ listing standards.

Audit Committee

Incorporated into this Item by reference is the information relating to our audit committee set forth in the Proxy Statement under the caption "Corporate Governance."

Section 16(a) Beneficial Ownership Reporting Compliance

Incorporated into this Item by reference is the information relating to reports filed under Section 16(a) of the Exchange Act set forth in the Proxy Statement under the caption "Corporate Governance."

Corporate Governance

Incorporated into this Item by reference is the information relating to the procedures by which shareholders may recommend nominees to the board of directors set forth in the Proxy Statement under the caption "Corporate Governance."

Item 11. Executive Compensation

Incorporated into this Item by reference is the information in the Proxy Statement regarding the compensation of our named executive officers appearing under the heading "Executive Compensation," the information regarding compensation committee interlocks and insider participation under the heading "Corporate Governance" and the information regarding compensation of non-employee directors under the heading "Director Compensation."

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Incorporated into this Item by reference is the information in the Proxy Statement appearing under the headings "Security Ownership of Certain Beneficial Owners" and "Equity Compensation Plan Information."

Item 13. Certain Relationships and Related Transactions, and Director Independence

Incorporated into this Item by reference is the information in the Proxy Statement regarding director independence and related person transactions under the heading "Corporate Governance."

Item 14. Principal Accounting Fees and Services

Incorporated into this Item by reference is the information in the Proxy Statement under the heading "Audit-Related Matters."

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a)Documents Filed as Part of this annual report on Form 10-K:

1. See our financial statements beginning on page F-1.

(b)Exhibits:

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

Exhibit No.	Description
3.1	Articles of Incorporation of First Internet Bancorp (incorporated by reference to Exhibit 3.1 to registration statement filed on Form 10 filed November 30, 2012)
3.2	Amended and Restated Bylaws of First Internet Bancorp as amended March 18, 2013 (incorporated by reference to Exhibit 3.2 to annual report on Form 10-K for the year ended December 31, 2012)
4.1	Warrant to purchase common stock dated June 28, 2013 (incorporated by reference to Exhibit 4.1 to current report on Form 8-K filed July 5, 2013)
4.2	Form of Senior Indenture (incorporated by reference to Exhibit 4.6 to registration statement on Form S-3 (Registration No. 333-208748) filed December 23, 2015)
4.3	Form of Subordinated Indenture (incorporated by reference to Exhibit 4.7 to registration statement on Form S-3 (Registration No. 333-208748) filed December 23, 2015)
4.4	Subordinated Indenture, dated as of September 30, 2016, between First Internet Bancorp and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to current report on Form 8-K filed on September 30, 2016)
4.5	First Supplemental Indenture, dated as of September 30, 2016, between First Internet Bancorp and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2 to current report on Form 8-K filed on September 30, 2016)
4.6	Form of Global Note representing 6.0% Subordinated Notes due 2026 (incorporated by reference to Exhibit A included in Exhibit 4.2 to current report on Form 8-K filed on September 30, 2016)
10.1	First Internet Bancorp 2013 Equity Incentive Plan (incorporated by reference to Appendix A to the definitive proxy statement on Schedule 14A filed April 9, 2013)*
10.2	Form of Restricted Stock Agreement under 2013 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to current report on Form 8-K filed July 26, 2013)*
10.3	First Internet Bancorp 2011 Directors' Deferred Stock Plan (incorporated by reference to Exhibit 10.2 to registration statement on Form 10 filed November 30, 2012)*
10.4	Amended and Restated Employment Agreement among First Internet Bank of Indiana, First Internet Bancorp and David B. Becker dated March 28, 2013 (incorporated by reference to Exhibit 10.4 to annual report on Form 10-K for the year ended December 31, 2012)*
10.5	Lease dated as of March 6, 2013, by and between First Internet Bancorp and First Internet Bank of Indiana (incorporated by reference to Exhibit 10.2 to current report on Form 8-K filed March 11, 2013)
10.6	First Amendment to Office Lease dated as of July 1, 2015, by and between First Internet Bancorp and First Internet Bank of Indiana (incorporated by reference to Exhibit 10.1 to quarterly report on Form 10-Q filed August 5, 2015)
10.7	Second Amendment to Office Lease dated as of July 1, 2016, by and between First Internet Bancorp and First Internet Bank of Indiana (incorporated by reference to Exhibit 10.2 to quarterly report on Form 10-Q filed August 2, 2016)

10.8	Subordinated Debenture Purchase Agreement with Community BanCapital, L.P., dated June 28, 2013 (incorporated by reference to Exhibit 10.1 to current report on Form 8-K filed July 5, 2013)
10.9	Subordinated Debenture dated June 28, 2013 (incorporated by reference to Exhibit 10.2 to current report on Form 8-K filed July 5, 2013)
10.10	2016 Senior Executive Cash Incentive Plan (incorporated by reference to Exhibit 10.1 to quarterly report on Form 10-Q filed May 4, 2016)*

Exhibit No.	Description
10.11	Form of Director Restricted Stock Units under 2013 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to quarterly report on Form 10-Q filed May 4, 2016)*
10.12	Loan Agreement dated as of March 6, 2013, by and between the Company and the Bank (incorporated by reference to Exhibit 10.1 to current report on Form 8-K filed March 11, 2013)
10.13	First, Second and Third Acknowledgment, Confirmation and Amendment between First Internet Bank of Indiana and First Internet Bancorp executed March 6, 2014, March 6, 2015 and February 26, 2016, respectively (incorporated by reference to Exhibit 10.15 to current report on Form 10-K filed March 10, 2016)
10.14	Fourth Acknowledgment, Confirmation and Amendment between First Internet Bank of Indiana and First Internet Bancorp executed February 21, 2017
10.15	Sales Agency Agreement, dated as of May 6, 2016, among First Internet Bancorp, First Internet Bank of Indiana and Sandler O'Neill & Partners, L.P. (incorporated by reference to Exhibit 1.1 to current report on Form 8-K filed May 6, 2016)
21.1	List of Subsidiaries
23.1	Consent of Independent Registered Public Accounting Firm
24.1	Powers of Attorney
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certifications
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

*Management contract, compensatory plan or arrangement required to be filed as an exhibit.

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 14, 2017.

FIRST INTERNET BANCORP

By: /s/ David B. Becker
David B. Becker,
Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 14, 2017.

/s/ David B. Becker David B. Becker, Chairman, President, Chief Executive Officer and Director (Principal Executive Officer)	/s/ Kenneth J. Lovik Kenneth J. Lovik, Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
* John K. Keach, Jr., Director	* David R. Lovejoy, Director
* Ann D. Murtlow, Director	* Ralph R. Whitney, Jr., Director
* Jerry Williams, Director	* Jean L. Wojtowicz, Director

* David B. Becker, by signing his name hereto, does hereby sign this document on behalf of each of the above-named directors of the Registrant pursuant to powers of attorney duly executed by such persons.

By: /s/ David B. Becker
David B. Becker,
Attorney-in-Fact

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Reports of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Shareholders
First Internet Bancorp
Fishers, Indiana

We have audited the accompanying consolidated balance sheets of First Internet Bancorp (the “Company”) as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2016. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.
We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States).
Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Internet Bancorp as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), First Internet Bancorp's internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 14, 2017, expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

/s/ BKD, LLP

Indianapolis, Indiana
March 14, 2017

Reports of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Shareholders
First Internet Bancorp
Fishers, Indiana

We have audited First Internet Bancorp's (the "Company") internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management's Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, First Internet Bancorp maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of First Internet Bancorp and our report dated March 14, 2017, expressed an unqualified opinion thereon.

/s/ BKD, LLP

Indianapolis, Indiana
March 14, 2017

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First Internet Bancorp
Consolidated Balance Sheets
(Amounts in thousands except share data)

	December 31, 2016	December 31, 2015
Assets		
Cash and due from banks	$2,282	$1,063
Interest-bearing demand deposits	37,170	24,089
Total cash and cash equivalents	39,452	25,152
Interest-bearing time deposits	250	1,000
Securities available-for-sale - at fair value (amortized cost of $471,070 in 2016 and $215,576 in 2015)	456,700	213,698
Securities held-to-maturity - at amortized cost (fair value of $16,197 in 2016 and $0 in 2015)	16,671	—
Loans held-for-sale (includes $27,101 in 2016 and $24,065 in 2015 at fair value)	27,101	36,518
Loans	1,250,789	953,859
Allowance for loan losses	(10,981)	(8,351)
Net loans	1,239,808	945,508
Accrued interest receivable	6,708	4,105
Federal Home Loan Bank of Indianapolis stock	8,910	8,595
Cash surrender value of bank-owned life insurance	24,195	12,727
Premises and equipment, net	10,044	8,521
Goodwill	4,687	4,687
Other real estate owned	4,533	4,488
Accrued income and other assets	15,276	4,871
Total assets	$1,854,335	$1,269,870
Liabilities and shareholders' equity		
Liabilities		
Noninterest-bearing deposits	$31,166	$23,700
Interest-bearing deposits	1,431,701	932,354
Total deposits	1,462,867	956,054
Advances from Federal Home Loan Bank	189,981	190,957
Subordinated debt, net of unamortized discounts and debt issuance costs of $1,422 in 2016 and $276 in 2015	36,578	12,724
Accrued interest payable	112	117
Accrued expenses and other liabilities	10,855	5,688
Total liabilities	1,700,393	1,165,540
Commitments and Contingencies		
Shareholders' equity		
Preferred stock, no par value; 4,913,779 shares authorized; issued and outstanding - none	—	—
Voting common stock, no par value; 45,000,000 shares authorized; 6,478,050 in 2016 and 4,481,347 in 2015 shares issued and outstanding	119,506	72,559
Nonvoting common stock, no par value; 86,221 shares authorized; issued and outstanding - none	—	—
Retained earnings	43,704	32,980
Accumulated other comprehensive loss	(9,268)	(1,209)
Total shareholders' equity	153,942	104,330
Total liabilities and shareholders' equity	$1,854,335	$1,269,870

See Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	2016	2015	2014
Interest income			
Loans	$49,054	$37,049	$27,875
Securities – taxable	7,326	3,728	3,036
Securities – non-taxable	1,856	312	58
Other earning assets	663	358	246
Total interest income	58,899	41,447	31,215
Interest expense			
Deposits	15,853	8,755	7,653
Other borrowed funds	3,357	1,939	1,275
Total interest expense	19,210	10,694	8,928
Net interest income	39,689	30,753	22,287
Provision for loan losses	4,330	1,946	349
Net interest income after provision for loan losses	35,359	28,807	21,938
Noninterest income			
Service charges and fees	818	764	707
Mortgage banking activities	12,398	9,000	5,609
Gain on sale of securities	177	—	538
Loss on asset disposals	(63)	(34)	(78)
Other	747	411	398
Total noninterest income	14,077	10,141	7,174
Noninterest expense			
Salaries and employee benefits	17,387	14,271	12,348
Marketing, advertising and promotion	1,823	1,756	1,455
Consulting and professional fees	3,143	2,374	1,902
Data processing	1,127	1,016	995
Loan expenses	891	631	626
Premises and equipment	3,699	2,768	2,937
Deposit insurance premium	1,159	643	591
Other	2,222	1,824	1,808
Total noninterest expense	31,451	25,283	22,662
Income before income taxes	17,985	13,665	6,450
Income tax provision	5,911	4,736	2,126
Net income	$12,074	$8,929	$4,324
Income per share of common stock			
Basic	$2.32	$1.97	$0.96
Diluted	2.30	1.96	0.96
Weighted-average number of common shares outstanding			
Basic	5,211,209	4,528,528	4,497,007
Diluted	5,239,082	4,554,219	4,507,995
Dividends declared per share	$0.24	$0.24	$0.24

See Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	2016	2015	2014
Net income	$12,074	$8,929	$4,324
Other comprehensive income (loss)			
Net unrealized holding gains (losses) on securities available-for-sale	(12,315)	(1,669)	3,260
Reclassification adjustment for gains realized	(177)	—	(538)
Net unrealized holding gains on securities available-for-sale for which an other-than-temporary impairment has been recognized in income	—	—	751
Other comprehensive income (loss) before tax	(12,492)	(1,669)	3,473
Income tax provision (benefit)	(4,433)	(595)	1,236
Other comprehensive income (loss) - net of tax	(8,059)	(1,074)	2,237
Comprehensive income	$4,015	$7,855	$6,561

See Notes to Consolidated Financial Statements

First Internet Bancorp
Consolidated Statements of Shareholders' Equity
(Amounts in thousands except per share data)

	Voting and Nonvoting Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance, January 1, 2014	$71,378	$21,902	$ (2,372)	$ 90,908
Net income	—	4,324	—	4,324
Other comprehensive income	—	—	2,237	2,237
Dividends declared ($0.24 per share)	—	(1,080)	—	(1,080)
Recognition of the fair value of share-based compensation	507	—	—	507
Common stock redeemed for the net settlement of share-based awards	(71)	—	—	(71)
Other	(40)			(40)
Balance, December 31, 2014	$71,774	$25,146	$ (135)	$ 96,785
Net income	—	8,929	—	8,929
Other comprehensive loss	—	—	(1,074)	(1,074)
Dividends declared ($0.24 per share)	—	(1,095)	—	(1,095)
Recognition of the fair value of share-based compensation	762	—	—	762
Deferred stock rights and restricted stock units issued in lieu of cash dividends payable on outstanding deferred stock rights and restricted stock units	25	—	—	25
Excess tax benefit on share-based compensation	36			36
Common stock redeemed for the net settlement of share-based awards	(38)	—	—	(38)
Balance, December 31, 2015	$72,559	$32,980	$ (1,209)	$ 104,330
Net income	—	12,074	—	12,074
Other comprehensive loss	—	—	(8,059)	(8,059)
Dividends declared ($0.24 per share)	—	(1,350)	—	(1,350)
Net cash proceeds from common stock issuance	46,223	—	—	46,223
Recognition of the fair value of share-based compensation	736	—	—	736
Deferred stock rights and restricted stock units issued in lieu of cash dividends payable on outstanding deferred stock rights and restricted stock units	30	—	—	30
Excess tax benefit on share-based compensation	49	—	—	49
Common stock redeemed for the net settlement of share-based awards	(91)	—	—	(91)
Balance, December 31, 2016	$119,506	$43,704	$ (9,268)	$ 153,942

See Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	2016	2015	2014
Operating activities			
Net income	$12,074	$8,929	$4,324
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,799	1,942	1,904
Increase in cash surrender value of bank-owned life insurance	(468)	(402)	(390)
Provision for loan losses	4,330	1,946	349
Share-based compensation expense	736	762	507
Gain from sale of available-for-sale securities	(177)	—	(538)
Loans originated for sale	(598,439)	(502,716)	(409,715)
Proceeds from sale of loans	619,818	509,373	409,453
Gain on loans sold	(12,462)	(8,845)	(5,048)
Decrease (increase) in fair value of loans held-for-sale	500	341	(751)
(Gain) loss on derivatives	(436)	(496)	190
Deferred income tax	3,544	443	(1,529)
Net change in other assets	(7,390)	(1,227)	2,035
Net change in other liabilities	1,041	858	1,189
Net cash provided by operating activities	26,470	10,908	1,980
Investing activities			
Net loan activity, excluding purchases	(247,957)	(220,828)	(124,696)
Net change in interest-bearing deposits	750	1,000	500
Bank owned life insurance purchased	(11,000)	—	—
Proceeds from liquidation of other real estate owned	—	—	235
Maturities of securities available-for-sale	42,616	21,759	21,254
Proceeds from sale of securities available-for-sale	49,430	—	137,816
Purchase of securities available-for-sale	(349,683)	(100,335)	(112,000)
Purchase of securities held-to-maturity	(16,672)	—	—
Purchase of Federal Home Loan Bank of Indianapolis stock	(315)	(3,245)	(2,407)
Purchase of premises and equipment	(3,173)	(2,543)	(915)
Loans purchased	(50,718)	—	(106,480)
Net cash used in investing activities	(586,722)	(304,192)	(186,693)
Financing activities			
Net increase in deposits	506,813	197,456	85,503
Cash dividends paid	(1,199)	(1,093)	(1,080)
Net proceeds from issuance of subordinated debt	23,757	9,761	—
Net proceeds from common stock issuance	46,223	—	—
Proceeds from advances from Federal Home Loan Bank	157,000	300,000	170,000
Repayment of advances from Federal Home Loan Bank	(158,000)	(216,000)	(95,000)
Other, net	(42)	23	(111)
Net cash provided by financing activities	574,552	290,147	159,312
Net increase (decrease) in cash and cash equivalents	14,300	(3,137)	(25,401)
Cash and cash equivalents, beginning of year	25,152	28,289	53,690
Cash and cash equivalents, end of year	$39,452	$25,152	$28,289
Supplemental disclosures of cash flows information			
Cash paid during the year for interest	$19,215	$10,674	$8,933
Cash paid during the year for taxes	5,894	3,793	2,346

Loans transferred to other real estate owned	45	—	—
Cash dividends declared, not paid	388	267	265
Capital committed to Small Business Investment Company fund, not contributed	4,000	—	—

See Notes to Consolidated Financial Statements

First Internet Bancorp
Notes to Consolidated Financial Statements
(Tabular dollar amounts in thousands except per share data)

Note 1: Basis of Presentation and Summary of Significant Accounting Policies

The accounting policies of First Internet Bancorp and its subsidiaries (the "Company") conform to accounting principles generally accepted in the United States of America ("GAAP"). A summary of the Company's significant accounting policies follows:

Description of Business

The Company was incorporated on September 15, 2005, and consummated a plan of exchange on March 21, 2006, by which the Company became a bank holding company and 100% owner of First Internet Bank of Indiana (the "Bank").

The Bank provides commercial and retail banking services, with operations conducted on the Internet at www.firstib.com and primarily through its corporate office located in Fishers, Indiana as well as a loan production office in Tempe, Arizona. The majority of the Bank's income is derived from commercial lending, retail lending, and mortgage banking activities. The Bank is subject to competition from other financial institutions. The Bank is regulated by certain state and federal agencies and undergoes periodic examinations by those regulatory authorities.

JKH Realty Services, LLC was established August 20, 2012 as a single member LLC wholly-owned by the Bank to manage other real estate owned properties as needed.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its direct and indirect subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company's business activities are currently limited to one reporting unit and reportable segment, which is commercial banking.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company utilizes processes that involve the use of significant estimates and the judgment of management in determining the amount of the Company's allowance for loan losses and income taxes and valuation and impairments of investment securities and goodwill, as well as fair value measurements of derivatives and loans held-for-sale. Actual results could differ from those estimates.

Securities

The Company classifies its securities in one of three categories and accounts for the investments as follows:

- Securities that the Company has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and reported at amortized cost.
-

Securities that are acquired and held principally for the purpose of selling them in the near term with the objective of generating economic profits on short-term differences in market characteristics are classified as “trading securities” and reported at fair value, with unrealized gains and losses included in earnings. The Company had no securities classified as “trading securities” at December 31, 2016 or 2015.

- Securities not classified as either “held-to-maturity” or “trading securities” are classified as “securities available-for-sale” and reported at fair value, with unrealized gains and losses, after applicable taxes, excluded from earnings and reported in a separate component of shareholders’ equity. Declines in the value of debt securities and marketable equity securities that are considered to be other-than-temporary are recorded as an other-than-temporary impairment of securities available-for-sale with other-than-temporary impairment losses recorded in the consolidated statements of income.

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Interest and dividend income, adjusted by amortization of premium or discount, is included in earnings using the effective interest rate method. Purchases and sales of securities are recorded in the consolidated balance sheets on the trade date. Gains and losses from security sales or disposals are recognized as of the trade date in the consolidated statements of income for the period in which securities are sold or otherwise disposed of. Gains and losses on sales of securities are determined using the specific-identification method.

Loans Held-for-Sale

Loans originated and intended for sale in the secondary market under best-efforts pricing agreements are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to noninterest income.

Loans originated and intended for sale in the secondary market under mandatory pricing agreements are carried at fair value to facilitate hedging of the loans. Gains and losses resulting from changes in fair value are included in noninterest income.

Gains and losses on loan sales are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

Revenue Recognition

Interest income on loans is accrued as earned using the interest method based on unpaid principal balances except for interest on loans in nonaccrual status. Interest on loans in nonaccrual status is recorded as a reduction of loan principal when received.

Premiums and discounts are amortized using the effective interest rate method.

Loan fees, net of certain direct origination costs, primarily salaries and wages, are deferred and amortized to interest income as a yield adjustment over the life of the loan.

Loans

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

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

Allowance for Loan Losses Methodology

Company policy is designed to maintain an adequate ALLL. Primary responsibility for ensuring that the Company has processes in place to consistently assess the adequacy of the ALLL rests with the Board of Directors (the “Board”). The

Board has charged management with responsibility for establishing the methodology to be used and to assess the adequacy of the ALLL. The Board reviews recommendations from management on a quarterly basis to adjust the allowance as appropriate.

The methodology employed by management for each portfolio segment, at a minimum, contains the following:

1. Loans are segmented by type of loan.

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2. The required ALLL for types of performing homogeneous loans which do not have a specific reserve is determined by applying a factor based on historical losses averaged over the past sixteen quarters. In those instances where the Company's historical experience is not available, management develops factors based on industry experience and best practices.

3. All criticized, classified and impaired loans are tested for impairment by applying one of three methodologies:

a. Present value of future cash flows;

b. Fair value of collateral less costs to sell; or

c. The loan's observable market price

4. All troubled debt restructurings ("TDR") are considered impaired loans.

5. Loans tested for impairment are removed from other pools to prevent layering (double-counting).

6. The required ALLL for each group of loans are added together to determine the total required ALLL for the Company. The required ALLL is compared to the existing ALLL to determine the provision required to increase the ALLL or credit to decrease the ALLL.

The historical loss experience is determined by portfolio segment and considers two weighted average net charge-off trends: 1) the Company's average loss history over the previous sixteen quarters; and 2) average loss history over the previous sixteen quarters for a peer group. Management believes the historical loss experience methodology is appropriate in the current economic environment, as it captures loss rates that are comparable to the current period being analyzed.

The Company also factors in the following qualitative considerations:

1. Changes in policies and procedures;

2. Changes in national, regional, and local economic and business conditions;

3. Changes in the composition and size of the portfolio and in the terms of loans;

4. Changes in the experience, ability, and depth of lending management and other relevant staff;

5. Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans;

6. Changes in the quality of the Company's loan review system;

7. Changes in the value of underlying collateral for collateral-dependent loans;

8. The existence and effect of any concentration of credit and changes in the level of such concentrations; and

9. The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio.

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Provision for Loan Losses

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

Nonaccrual Loans

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

Impaired Loans

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

Impaired loans include nonperforming loans but also include loans modified in TDRs where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance, or other actions intended to maximize collection.

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

Troubled Debt Restructurings ("TDR")

The loan portfolio includes certain loans that have been modified in a TDR, where economic concessions have been granted to borrowers who have experienced financial difficulties. These concessions typically result from loss mitigation efforts and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructuring and typically are returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally not less than six months.

When loans are modified in a TDR, any possible impairment similar to other impaired loans is evaluated based on either the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, or the current fair value of the collateral, less selling costs for collateral dependent loans. If it is determined that the value of the modified loan is less than the recorded balance of the loan, impairment is recognized through a specific ALLL or charge-off to the ALLL. In periods subsequent to modification, all TDRs, including those that have payment defaults, are evaluated for possible impairment, and impairment is recognized through the ALLL.

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Policy for Charging Off Loans

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

Federal Home Loan Bank ("FHLB") of Indianapolis Stock

Federal law requires a member institution of the FHLB system to hold common stock of its district FHLB according to a predetermined formula. This investment is stated at cost, which represents redemption value, and may be pledged as collateral for FHLB advances.

Premises and Equipment

Premises and equipment is stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives, which range from three to five years for software and equipment, ten years for land improvements, and 39 years for buildings.

Other Real Estate Owned

Other real estate owned represents real estate acquired through foreclosure or deed in lieu of foreclosure and is recorded at its fair value less estimated costs to sell. When property is acquired, it is recorded at its fair value at the date of acquisition with any resulting write-down charged against the ALLL. Any subsequent deterioration of the property is charged directly to operating expense. Costs relating to the development and improvement of other real estate owned are capitalized, whereas costs relating to holding and maintaining the property are charged to expense as incurred.

Derivative Financial Instruments

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

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

Fair Value Measurements

The Company records or discloses certain assets and liabilities at fair value. ASC Topic 820, Fair Value Measurements, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are classified within one of three levels in a valuation hierarchy. ASC Topic 820 describes three levels of inputs that may be used to measure fair value:

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

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Level 2	Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

There were no transfers that occurred and, therefore, recognized, between any of the fair value hierarchy levels at December 31, 2016 or December 31, 2015.

Income Taxes

Deferred income tax assets and liabilities reflect the impact of temporary differences between amounts of assets and liabilities for financial reporting purposes and the basis of such assets and liabilities as measured by tax laws and regulations. Deferred income tax expense or benefit is based upon the change in deferred tax assets and liabilities from period to period, subject to an ongoing assessment of realization of deferred tax assets. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company files income tax returns in the U.S. federal, Indiana, and other state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local examinations by tax authorities for years before 2013.

ASC Topic 740-10, Accounting for Uncertainty in Income Taxes, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company did not identify any uncertain tax positions that it believes should be recognized in the consolidated financial statements.

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Earnings Per Share

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

The following is a reconciliation of the weighted-average common shares for the basic and diluted earnings per share computations.

	Year Ended December 31,		
	2016	2015	2014
Basic earnings per share			
Net income available to common shareholders	$12,074	$ 8,929	$ 4,324
Weighted-average common shares	5,211,209	4,528,528	4,497,007
Basic earnings per common share	$2.32	$ 1.97	$ 0.96
Diluted earnings per share			
Net income available to common shareholders	$12,074	$ 8,929	$ 4,324
Weighted-average common shares	5,211,209	4,528,528	4,497,007
Dilutive effect of warrants	11,026	10,665	2,895
Dilutive effect of equity compensation	16,847	15,026	8,093
Weighted-average common and incremental shares	5,239,082	4,554,219	4,507,995
Diluted earnings per common share	$2.30	$ 1.96	$ 0.96
Number of warrants excluded from the calculation of diluted earnings per share as the exercise prices were greater than the average market price of the Company's common stock during the year	—	—	—

Share-based Compensation

The Company has a share-based compensation plan using the fair value recognition provisions of ASC Topic 718, Compensation - Stock Compensation. The plan is described more fully in Note 10.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available-for-sale.

Reclassification adjustments have been determined for all components of other comprehensive income or loss reported in the consolidated statements of changes in shareholders' equity.

Statements of Cash Flows

Cash and cash equivalents are defined to include cash on-hand, noninterest and interest-bearing amounts due from other banks and federal funds sold. Generally, federal funds are sold for one-day periods. The Company reports net cash flows for customer loan transactions and deposit transactions.

Bank-Owned Life Insurance

Bank-owned life insurance policies are carried at their cash surrender value. The Company recognizes tax-free income from the periodic increases in the cash surrender value of these policies and from death benefits.

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Goodwill

Goodwill is tested at least annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the 2015 and 2014 financial statements to conform to the 2016 financial statement presentation. These reclassifications had no effect on net income.

Note 2: Cash and Cash Equivalents

At December 31, 2016, the Company's interest-bearing cash accounts at other institutions did not exceed the limits for full FDIC insurance coverage. However, approximately $0.6 million and $36.6 million of cash was held by the FHLB of Indianapolis and Federal Reserve Bank of Chicago, respectively, which are not federally insured.

The Company is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2016 was $0.6 million.

Note 3: Securities

The following tables summarize securities available-for-sale and securities held-to-maturity as of December 31, 2016 and 2015. There were no securities held-to-maturity as of December 31, 2015.

	December 31, 2016			
	Amortized Cost	Gross Gains	Unrealized Losses	Fair Value
Securities available-for-sale				
U.S. Government-sponsored agencies	$92,599	$167	$(870)	$91,896
Municipal securities	97,647	85	(5,846)	91,886
Mortgage-backed securities	238,354	—	(6,713)	231,641
Asset-backed securities	19,470	65	(1)	19,534
Corporate securities	20,000	—	(1,189)	18,811
Other securities	3,000	—	(68)	2,932
Total available-for-sale	$471,070	$317	$(14,687)	$456,700

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held-to-maturity				
Municipal securities	$10,171	$—	$(498)	$9,673
Corporate securities	6,500	24	—	6,524
Total held-to-maturity	$16,671	$24	$(498)	16,197

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	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale				
U.S. Government-sponsored agencies	$38,093	$139	$(482)	$37,750
Municipals	21,091	385	(7)	21,469
Mortgage-backed securities	113,948	110	(1,006)	113,052
Asset-backed securities	19,444	—	(83)	19,361
Corporate securities	20,000	—	(913)	19,087
Other securities	3,000	—	(21)	2,979
Total available-for-sale	$215,576	$634	$(2,512)	$213,698

The carrying value of securities at December 31, 2016 is shown below by their contractual maturity date. Actual maturities will differ because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale	
	Amortized Cost	Fair Value
Within one year	$—	$—
One to five years	1,067	1,035
Five to ten years	38,336	37,401
After ten years	170,843	164,157
	210,246	202,593
Mortgage-backed securities	238,354	231,641
Asset-backed securities	19,470	19,534
Other securities	3,000	2,932
Total	$471,070	$456,700

	Held-to-Maturity	
	Amortized Cost	Fair Value
Five to ten years	$9,366	$9,259
After ten years	7,305	6,938
Total	$16,671	$16,197

Gross realized gains of $0.2 million, $0.0 million, and $2.7 million and gross realized losses of $0.0 million, $0.0 million, and $2.2 million resulting from sales of available-for-sale securities were recognized during the twelve months ended December 31, 2016, 2015, and 2014, respectively.

As of December 31, 2016, the fair value of available-for-sale investment securities pledged as collateral was $342.3 million. The Company pledged the securities for various types of transactions, including FHLB advances and derivative financial instruments.

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Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2016 and 2015 was $422.9 million and $166.1 million, which is approximately 89% and 78%, respectively, of the Company's available-for-sale and held-to-maturity securities portfolio. These declines primarily resulted from fluctuations in market interest rates after purchase. Management believes the declines in fair value for these securities are temporary.

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

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

The unrealized losses on the Company's investments in securities issued by U.S. Government-sponsored agencies, municipal organizations and corporate entities were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not likely that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2016.

Mortgage-Backed and Asset-Backed Securities

The unrealized losses on the Company's investments in mortgage-backed and asset-backed securities were caused by interest rate changes. The Company expects to recover the amortized cost bases over the term of the securities. Because the Company does not intend to sell the investments and it is not likely that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2016.

Other Securities

The unrealized losses on the Company's investments in other securities were caused by the investment in the Community Reinvestment Act Qualified Fund. Because the Company does not intend to sell the investment and it is not likely that the Company will be required to sell the investment before recovery of its amortized cost basis, the Company does not consider this investment to be other-than-temporarily impaired at December 31, 2016.

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

	December 31, 2016					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available-for-sale						
U.S. Government-sponsored agencies	$68,625	$(840)	$260	$(30)	$68,885	$(870)

Municipal securities	86,424	(5,846)	—	—	86,424	(5,846)
Mortgage-backed securities	231,641	(6,713)	—	—	231,641	(6,713)
Asset-backed securities	—	—	4,520	(1)	4,520	(1)
Corporate securities	—	—	18,811	(1,189)	18,811	(1,189)
Other securities	2,932	(68)	—	—	2,932	(68)
Total	$389,622	$(13,467)	$23,591	$(1,220)	$413,213	$(14,687)

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	December 31, 2016					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities held-to-maturity						
Municipal securities	$9,673	$ (498)	$ —	$ —	$9,673	$ (498)
Total	$9,673	$ (498)	$ —	$ —	$9,673	$ (498)

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

Credit Losses Recognized on Investments

Certain debt securities have experienced fair value deterioration due to credit losses and other market factors, but are not considered other-than-temporarily impaired.

The following table provides information about debt securities for which only a credit loss was recognized in income and other losses are recorded in accumulated other comprehensive loss. The Company did not own any securities categorized as OTTI securities during the years ended December 31, 2016 and 2015.

	Accumulated Credit Losses
Credit losses on debt securities held	
January 1, 2014	$ 1,183
Realized losses related to OTTI	(1,139)
Recoveries related to OTTI	(44)
December 31, 2014	—

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Amounts reclassified from accumulated other comprehensive loss and the affected line items in the consolidated statements of income during the years ended December 31, 2016, 2015 and 2014 were as follows:

Details About Accumulated Other Comprehensive Loss Components	Amounts Reclassified from Accumulated Other Comprehensive Loss for the Year Ended December 31,			Affected Line Item in the Statements of Income
	2016	2015	2014	
Unrealized gains and losses on securities available-for-sale				
Gain realized in earnings	$ 177	$ —	$ 538	Gain on sale of securities
Total reclassified amount before tax	177	—	538	Income before income taxes
Tax expense	63	—	191	Income tax provision
Total reclassifications out of accumulated other comprehensive loss	$ 114	$ —	$ 347	Net Income

Note 4: Loans

Categories of loans include:

	December 31,	
	2016	2015
Commercial loans		
Commercial and industrial	$102,437	$102,000
Owner-occupied commercial real estate	57,668	44,462
Investor commercial real estate	13,181	16,184
Construction	53,291	45,898
Single tenant lease financing	606,568	374,344
Total commercial loans	833,145	582,888
Consumer loans		
Residential mortgage	205,554	214,559
Home equity	35,036	43,279
Other consumer	173,449	108,312
Total consumer loans	414,039	366,150
Total commercial and consumer loans	1,247,184	949,038
Net deferred loan origination costs and premiums and discounts on purchased loans	3,605	4,821
Total loans	1,250,789	953,859
Allowance for loan losses	(10,981)	(8,351)
Net loans	$1,239,808	$945,508

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

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

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

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Investor Commercial Real Estate: These loans are underwritten primarily based on the cash flow expected to be generated from the property and are secondarily supported by the value of the real estate. These loans typically incorporate a personal guarantee. This portfolio segment generally involves higher loan principal amounts, and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Investor commercial real estate loans may be more adversely affected by conditions in the real estate markets, changing industry dynamics, or the overall health of the general economy. The properties securing the Company's investor commercial real estate portfolio tend to be diverse in terms of property type and are typically located in the state of Indiana and markets adjacent to Indiana. Management monitors and evaluates commercial real estate loans based on property financial performance, collateral value, guarantor strength, and other risk grade criteria. As a general rule, the Company avoids financing special use projects or properties outside of its designated market areas unless other underwriting factors are present to mitigate these additional risks.

Construction: Construction loans are secured by real estate and improvements and are made to assist in the construction of new structures, which may include commercial (retail, industrial, office, multi-family) properties or single family residential properties offered for sale by the builder. These loans generally finance a variety of project costs, including land, site preparation, construction, closing and soft costs and interim financing needs. The cash flows of builders, while initially predictable, may fluctuate with market conditions, and the value of the collateral securing these loans may be subject to fluctuations based on general economic changes.
Single Tenant Lease Financing: These loans are made to property owners of real estate subject to long term lease arrangements with single tenant operators. The real estate is typically operated by regionally, nationally or globally branded businesses. The loans are underwritten based on the financial strength of the borrower, characteristics of the real estate, cash flows generated from the lease arrangements and the financial strength of the tenant. Similar to the other loan portfolio segments, management monitors and evaluates these loans based on borrower and tenant financial performance, collateral value, industry trends and other risk grade criteria.

Residential Mortgage: With respect to residential loans that are secured by 1-4 family residences and are generally owner occupied, the Company typically establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Repayment of these loans is primarily dependent on the financial circumstances of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Repayment can also be impacted by changes in residential property values. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers in geographically diverse locations throughout the country.
Home Equity: Home equity loans and lines of credit are typically secured by a subordinate interest in 1-4 family residences. The properties securing the Company's home equity portfolio segment are generally geographically diverse as the Company offers these products on a nationwide basis. Repayment of home equity loans and lines of credit may be impacted by changes in property values on residential properties and unemployment levels, among other economic conditions and financial circumstances in the market.
Other Consumer: These loans primarily consist of consumer loans and credit cards. Consumer loans may be secured by consumer assets such as horse trailers or recreational vehicles. Some consumer loans are unsecured, such as small installment loans, home improvement loans and certain lines of credit. Repayment of consumer loans is primarily dependent upon the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Risk is mitigated by the fact that the loans are of smaller individual amounts and

spread over a large number of borrowers in geographically diverse locations throughout the country.

First Internet Bancorp
Notes to Consolidated Financial Statements
(Tabular dollar amounts in thousands except per share data)

The following tables present changes in the balance of the allowance for loan losses during the twelve months ended December 31, 2016, 2015, and 2014.

	Twelve Months Ended December 31, 2016								
	Commercial and industrial	Owner-occupied commercial real estate	Investor commercial real estate	Construction	Single tenant lease financing	Residential mortgage	Home equity	Other consumer	Total
Allowance for loan losses:									
Balance, beginning of period	$1,367	$ 476	$ 212	$ 500	$ 3,931	$ 896	$125	$ 844	$8,351
Provision (credit) charged to expense	1,380	106	(44)	44	2,317	(38)	(3)	568	4,330
Losses charged off	(1,582)	—	—	—	—	(134)	(33)	(440)	(2,189)
Recoveries	187	—	—	—	—	30	13	259	489
Balance, end of period	$1,352	$ 582	$ 168	$ 544	$ 6,248	$ 754	$102	$ 1,231	$10,981

	Twelve Months Ended December 31, 2015								
	Commercial and industrial	Owner-occupied commercial real estate	Investor commercial real estate	Construction	Single tenant lease financing	Residential mortgage	Home equity	Other consumer	Total
Allowance for loan losses:									