

Edgar Filing: First Internet Bancorp - Form 10-Q

First Internet Bancorp  
Form 10-Q  
August 12, 2014

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period June 30, 2014

OR

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

For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 001-35750

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

Indiana  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

8888 Keystone Crossing, Suite 1700  
Indianapolis, Indiana  
(Address of Principal Executive Offices)

46240  
(Zip Code)

(317) 532-7900  
(Registrant's Telephone Number, Including Area Code)

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

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

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

Yes  No

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

Large Accelerated Filer

Accelerated Filer

Edgar Filing: First Internet Bancorp - Form 10-Q

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

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of August 8, 2014, the registrant had 4,449,619 shares of common stock issued and outstanding.

---

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain “forward-looking statements” within the meaning of the federal securities laws. These statements are not historical facts, rather statements based on First Internet Bancorp’s (“we,” “our,” “us” or the “Company”) current expectations regarding its business strategies, intended results and future performance. Forward-looking statements are generally preceded by terms such as “expects,” “believes,” “anticipates,” “intends” and similar expressions. Such statements are subject to certain risks and uncertainties including: failures or interruptions in our information systems; growth in our commercial lending activities; declines in market values of our investments; technological obsolescence; our possible need for additional capital resources in the future; competition; loss of key members of management; fluctuations in interest rates; inadequate allowance for loan losses; risks relating to consumer lending; our dependence on capital distributions from the First Internet Bank of Indiana (the “Bank”); our ability to maintain growth in our mortgage lending business; a decline in the mortgage loan markets or real estate markets; risks associated with the regulation of financial institutions; and changes in regulatory capital requirements. Additional factors that may affect our results include those discussed in our most recent Annual Report on Form 10-K under the heading “Risk Factors” and in other reports filed with the Securities and Exchange Commission (the “SEC”). The Company cautions 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 the Company’s financial performance and could cause the Company’s 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, the Company does 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.

(i)

---

## PART I

## ITEM 1. FINANCIAL STATEMENTS

## First Internet Bancorp

## Condensed Consolidated Balance Sheets

(Amounts in thousands except share data)

	June 30, 2014 (Unaudited)	December 31, 2013
Assets		
Cash and due from banks	\$1,926	\$2,578
Interest-bearing demand deposits	18,718	51,112
Total cash and cash equivalents	20,644	53,690
Interest-bearing time deposits	2,000	2,500
Securities available-for-sale - at fair value (amortized cost of \$159,393 and \$185,091, respectively)	159,528	181,409
Loans held-for-sale (includes \$19,130 and \$24,254 at fair value, respectively)	21,466	28,610
Loans receivable	631,678	501,153
Allowance for loan losses	(5,140)	(5,426)
Net loans receivable	626,538	495,727
Accrued interest receivable	2,694	2,904
Federal Home Loan Bank of Indianapolis stock	2,943	2,943
Cash surrender value of bank-owned life insurance	12,128	11,935
Premises and equipment, net	7,133	7,134
Goodwill	4,687	4,687
Other real estate owned	4,664	4,381
Accrued income and other assets	3,682	6,422
Total assets	\$868,107	\$802,342
Liabilities and Shareholders' Equity		
Liabilities		
Non-interest bearing deposits	\$19,065	\$19,386
Interest-bearing deposits	725,108	653,709
Total deposits	744,173	673,095
Advances from Federal Home Loan Bank	21,845	31,793
Subordinated debt	2,831	2,789
Accrued interest payable	96	102
Accrued expenses and other liabilities	4,628	3,655
Total liabilities	773,573	711,434
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; 4,449,619 and 4,448,326 shares issued and outstanding, respectively	71,509	71,378
Nonvoting common stock, no par value; 86,221 shares authorized; issued and outstanding - none	—	—
Retained earnings	22,938	21,902
Accumulated other comprehensive income (loss)	87	(2,372)

Edgar Filing: First Internet Bancorp - Form 10-Q

Total shareholders' equity	94,534	90,908
Total liabilities and shareholders' equity	\$868,107	\$802,342
See Notes to Condensed Consolidated Financial Statements		

1

---

Edgar Filing: First Internet Bancorp - Form 10-Q

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

	Three Months Ended June 30,		Six Months Ended June 30,		
	2014	2013	2014	2013	
Interest Income					
Loans	\$6,571	\$4,861	\$12,700	\$9,903	
Securities – taxable	1,041	902	1,887	1,386	
Securities – non-taxable	—	396	58	699	
Total interest income	7,612	6,159	14,645	11,988	
Interest Expense					
Deposits	1,922	1,656	3,782	3,284	
Other borrowed funds	317	267	624	575	
Total interest expense	2,239	1,923	4,406	3,859	
Net Interest Income	5,373	4,236	10,239	8,129	
Provision (Credit) for Loan Losses	(73	) 24	74	158	
Net Interest Income After Provision (Credit) for Loan Losses	5,446	4,212	10,165	7,971	
Noninterest Income					
Service charges and fees	187	179	354	338	
Mortgage banking activities	1,229	3,457	2,129	6,468	
Other-than-temporary impairment					
Total loss related to other-than-temporarily impaired securities	—	(15	) —	(994	)
Portion of loss recognized in other comprehensive income (loss)	—	—	—	945	
Other-than-temporary impairment loss recognized in net income	—	(15	) —	(49	)
Gain (loss) on sale of securities	125	19	484	(166	)
Loss on asset disposals	(18	) (8	) (31	) (87	)
Other	99	87	197	202	
Total noninterest income	1,622	3,719	3,133	6,706	
Noninterest Expense					
Salaries and employee benefits	3,021	2,846	6,076	5,225	
Marketing, advertising, and promotion	394	455	776	827	
Consulting and professional services	494	561	952	1,214	
Data processing	239	232	476	446	
Loan expenses	136	285	250	365	
Premises and equipment	666	616	1,268	934	
Deposit insurance premium	138	115	282	227	
Other	472	415	918	850	
Total noninterest expense	5,560	5,525	10,998	10,088	
Income Before Income Taxes	1,508	2,406	2,300	4,589	
Income Tax Provision	531	694	723	1,389	
Net Income	\$977	\$1,712	\$1,577	\$3,200	
Income Per Share of Common Stock					
Basic	\$0.22	\$0.59	\$0.35	\$1.11	
Diluted	\$0.22	\$0.59	\$0.35	\$1.11	
Weighted-Average Number of Common Shares Outstanding					
Basic	4,496,219	2,888,260	4,495,449	2,887,207	
Diluted	4,504,302	2,888,260	4,503,010	2,887,207	
Dividends Declared Per Share	\$0.06	\$0.06	\$0.12	\$0.10	

See Notes to Condensed Consolidated Financial Statements

2

---

## First Internet Bancorp

## Condensed Consolidated Statements of Comprehensive Income – Unaudited

(Dollar amounts in thousands)

	Three Months Ended		Six Months Ended June	
	June 30,		30,	
	2014	2013	2014	2013
Net income	\$977	\$1,712	\$1,577	\$3,200
Other comprehensive income (loss)				
Net unrealized holding gains (losses) on securities available-for-sale	2,625	(5,048)	3,550	(4,459)
Reclassification adjustment for (gains) losses realized	(125)	(19)	(484)	166
Net unrealized holding gains (losses) on securities available-for-sale for which an other-than-temporary impairment has been recognized in income	688	(15)	751	(994)
Reclassification adjustment for other-than-temporary impairment loss recognized in income	—	15	—	49
Other comprehensive income (loss) before tax	3,188	(5,067)	3,817	(5,238)
Income tax provision (benefit)	1,134	(1,774)	1,358	(1,834)
Other comprehensive income (loss) - net of tax	2,054	(3,293)	2,459	(3,404)
Comprehensive income (loss)	\$3,031	\$(1,581)	\$4,036	\$(204)

See Notes to Condensed Consolidated Financial Statements



First Internet Bancorp

Condensed Consolidated Statements of Shareholders' Equity - Unaudited

Six Months Ended June 30, 2014

(Dollar amounts in thousands except per share data)

	Voting and Nonvoting Common Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
Balance, January 1, 2014	\$71,378	\$(2,372)	\$21,902	\$90,908
Net income	—	—	1,577	1,577
Other comprehensive income	—	2,459	—	2,459
Dividends declared (\$0.12 per share)	—	—	(541)	(541)
Recognition of the fair value of share-based compensation	252	—	—	252
Common stock redeemed for the net settlement of share-based awards	(71)	—	—	(71)
Other	(50)	—	—	(50)
Balance, June 30, 2014	\$71,509	\$87	\$22,938	\$94,534

See Notes to Condensed Consolidated Financial Statements

Edgar Filing: First Internet Bancorp - Form 10-Q

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

	Six Months Ended	
	June 30,	
	2014	2013
<b>Operating Activities</b>		
Net income	\$1,577	\$3,200
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	1,004	1,265
Increase in cash surrender value of bank-owned life insurance	(193	) (196
Provision for loan losses	74	158
Share-based compensation expense	252	60
Loss on other-than-temporary impairment of securities	—	49
Loss (gain) from sale of available-for-sale securities	(484	) 166
Loans originated for sale	(161,992	) (512,531
Proceeds from sale of loans	171,434	537,627
Gain on loans sold	(1,908	) (6,465
Unrealized loss (gain) on loans held-for-sale	(390	) 1,127
Loss (gain) on derivatives	169	(1,130
Net change in:		
Accrued interest receivable	210	(75
Accrued income and other assets	1,267	1,758
Accrued expenses and other liabilities	658	950
Net cash provided by operating activities	11,678	25,963
<b>Investing Activities</b>		
Net change in loans	(73,596	) (9,137
Net change in interest bearing deposits	500	(2,500
Maturities of securities available for sale	8,946	22,064
Proceeds from sale of securities available for sale	113,587	41,040
Purchase of securities available for sale	(96,803	) (103,526
Purchase of premises and equipment	(557	) (7,326
Loans purchased	(57,217	) —
Net cash used in investing activities	(105,140	) (59,385
<b>Financing Activities</b>		
Net increase in deposits	71,078	30,471
Cash dividends paid	(529	) (114
Proceeds from issuance of subordinated debt and related warrants	—	3,000
Proceeds from FHLB advances	30,000	—
Repayment of FHLB advances	(40,000	) (17,000
Other, net	(133	) —
Net cash provided by financing activities	60,416	16,357
Net Decrease in Cash and Cash Equivalents	(33,046	) (17,065
Cash and Cash Equivalents, Beginning of Period	53,690	32,513
Cash and Cash Equivalents, End of Period	\$20,644	\$15,448
<b>Supplemental Disclosures of Cash Flows Information</b>		
Cash paid during the period for interest	\$4,412	\$3,879
Cash paid during the period for taxes	—	723
Loans transferred to real estate owned	—	507

Edgar Filing: First Internet Bancorp - Form 10-Q

Cash dividends declared, not paid	265	169
See Notes to Condensed Consolidated Financial Statements		

First Internet Bancorp

Notes to Condensed Consolidated Financial Statements – Unaudited

(Dollar amounts in thousands except per share data)

Note 1: Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and pursuant to the rules and regulations of the SEC. Accordingly, they do not include all of the information or footnotes necessary for a complete presentation of financial condition, results of operations, or cash flows in accordance with U.S. GAAP. In our opinion, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation have been included. The results of operations for the three and six months ended June 30, 2014 are not necessarily indicative of the results expected for the year ending December 31, 2014 or any other period. The June 30, 2014 condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the First Internet Bancorp Annual Report on Form 10-K for the year ended December 31, 2013.

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

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

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

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statement presentation. These reclassifications had no effect on net income.

On June 21, 2013, the Company completed a three-for-two (3:2) split of its common stock by the payment of a stock dividend of one-half of one share on each outstanding share of common stock. Except as otherwise indicated, all of the share and per-share information referenced throughout this report has been adjusted to reflect this stock split.

## Note 2: Earnings Per Share

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

The following is a reconciliation of the weighted-average common shares for the basic and diluted earnings per share computations for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30,	
	2014	2013
Basic earnings per share		
Net income available to common shareholders	\$977	\$1,712
Weighted-average common shares	4,496,219	2,888,260
Basic earnings per common share	\$0.22	\$0.59
Diluted earnings per share		
Net income applicable to diluted earnings per share	\$977	\$1,712
Weighted-average common shares	4,496,219	2,888,260
Dilutive effect of warrants	4,835	—
Dilutive effect of equity compensation	3,248	—
Weighted-average common and incremental shares	4,504,302	2,888,260
Diluted earnings per common share	\$0.22	\$0.59
Number of warrants excluded from the calculation of diluted earnings per share as the exercise prices were greater than the average market price of the Company's common stock during the period	—	48,750
	Six Months Ended June 30,	
	2014	2013
Basic earnings per share		
Net income available to common shareholders	\$1,577	\$3,200
Weighted-average common shares	4,495,449	2,887,207
Basic earnings per common share	\$0.35	\$1.11
Diluted earnings per share		
Net income applicable to diluted earnings per share	\$1,577	\$3,200
Weighted-average common shares	4,495,449	2,887,207
Dilutive effect of warrants	5,838	—
Dilutive effect of equity compensation	1,723	—
Weighted-average common and incremental shares	4,503,010	2,887,207
Diluted earnings per common share	\$0.35	\$1.11
Number of warrants excluded from the calculation of diluted earnings per share as the exercise prices were greater than the average market price of the Company's common stock during the period	—	48,750

## Note 3: Securities

Securities at June 30, 2014 and December 31, 2013 are as follows:

	June 30, 2014			Fair Value
	Amortized Cost	Gross Gains	Unrealized Losses	
Securities available-for-sale				
U.S. Government-sponsored enterprises	\$20,204	\$174	\$(450)	) \$19,928
Mortgage-backed and asset-backed securities – government-sponsored enterprises	137,189	1,272	(856)	) 137,605
Other securities	2,000	—	(5)	) 1,995
Total available-for-sale	\$159,393	\$1,446	\$(1,311)	) \$159,528
	December 31, 2013			Fair Value
	Amortized Cost	Gross Gains	Unrealized Losses	
Securities available-for-sale				
U.S. Government-sponsored enterprises	\$57,569	\$470	\$(1,762)	) \$56,277
Municipals	46,126	1,080	(883)	) 46,323
Mortgage-backed and asset-backed securities – government-sponsored enterprises	75,058	696	(1,813)	) 73,941
Mortgage-backed and asset-backed securities – private labeled	1,313	9	(90)	) 1,232
Other securities	5,025	—	(1,389)	) 3,636
Total available-for-sale	\$185,091	\$2,255	\$(5,937)	) \$181,409

The carrying value of securities at June 30, 2014 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	\$2,009	\$2,004
One to five years	3,697	3,689
Five to ten years	949	952
After ten years	15,549	15,278
	22,204	21,923
Mortgage-backed and asset-backed securities – government-sponsored enterprises	137,189	137,605
Totals	\$159,393	\$159,528

In the three months ended June 30, 2014, the Company continued the restructuring and repositioning of its securities portfolio that began in early 2014 by selling a portion of the portfolio, including the ALESCO IV and I-PreTSL I collateralized debt obligations. During the three months ended March 31, 2014, the Company sold all of the municipal securities that were held in the securities portfolio at December 31, 2013. The actions taken in 2014 are intended to further mitigate interest rate risk and credit risk, while also reducing the overall size of the securities portfolio.

Gross gains of \$898 and \$24, and gross losses of \$773 and \$5 resulting from sales of available for sale securities were realized for the three months ended June 30, 2014 and 2013, respectively. In the six months ended June 30, 2014 and 2013, gross gains of \$2,299 and \$126 and gross losses of \$1,815 and \$292 were recognized, respectively.



Edgar Filing: First Internet Bancorp - Form 10-Q

Certain investments in debt securities are reported in the condensed consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at June 30, 2014 and December 31, 2013 was \$43,923 and \$109,946, which is approximately 28% and 61%, respectively, of the Company's available-for-sale investment portfolio. These declines primarily resulted from fluctuations in market interest rates after purchase.

Except as discussed below, 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 and the resulting loss recognized in net income in the period in which the other-than-temporary impairment ("OTTI") is identified.

The following tables show the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2014 and December 31, 2013:

	June 30, 2014					
	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 enterprises	\$537	\$(2 )	\$10,886	\$(448 )	\$11,423	\$(450 )
Mortgage-backed and asset-backed securities - government-sponsored enterprises	—	—	30,505	(856 )	30,505	(856 )
Other securities	—	—	1,995	(5 )	1,995	(5 )
	\$537	\$(2 )	\$43,386	\$(1,309 )	\$43,923	\$(1,311 )
	December 31, 2013					
	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 enterprises	\$43,085	\$(1,761 )	\$14	\$(1 )	\$43,099	\$(1,762 )
Municipals	14,105	(882 )	351	(1 )	14,456	(883 )
Mortgage-backed and asset-backed securities - government-sponsored enterprises	47,875	(1,813 )	—	—	47,875	(1,813 )
Mortgage-backed and asset-backed securities – private labeled	43	(1 )	838	(89 )	881	(90 )
Other securities	1,962	(38 )	1,673	(1,351 )	3,635	(1,389 )
	\$107,070	\$(4,495 )	\$2,876	\$(1,442 )	\$109,946	\$(5,937 )

U.S. Government Sponsored Enterprise and Municipal Securities



## Edgar Filing: First Internet Bancorp - Form 10-Q

The unrealized losses on the Company's investments in securities issued by U.S. Government sponsored enterprises and municipal securities 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 at a loss and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other than temporarily impaired at June 30, 2014.

### Mortgage-Backed Securities

The unrealized losses on the Company's investment in mortgage-backed securities were caused by interest rate changes. The Company expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments at a loss and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other than temporarily impaired at June 30, 2014.

For identified mortgage-backed securities in the investment portfolio, an extensive, quarterly review is conducted to determine if an other-than-temporary impairment has occurred. Various inputs to the economic models are used to determine if an unrealized loss is other than temporary. The most significant inputs are voluntary prepay rates, default rates, liquidation rates, and loss severity.

To determine if the unrealized loss for mortgage-backed securities is other than temporary, the Company projects total estimated defaults of the underlying assets (mortgages) and multiplies that calculated amount by an estimate of realizable value upon sale in the marketplace (severity) in order to determine the projected collateral loss. The Company also evaluates the current credit enhancement underlying the bond to determine the impact on cash flows. If the Company determines that a given mortgage-backed security position will be subject to a write-down or loss, the Company records the expected credit loss as a charge to earnings.

### Other Securities

The Company's unrealized loss on investments in other securities at December 31, 2013 primarily consists of two investments, both of which were sold in the second quarter of 2014.

The first investment is a \$2,000 par investment in I-PreTSL I B-2 pooled trust security. The unrealized loss was primarily caused by a sector downgrade by several industry analysts. The determination of no credit loss was calculated by comparing expected discounted cash flows based on performance indicators of the underlying assets in the security to the carrying value of the investment.

The second investment is a \$2,000 par investment in ALESCO IV Series B2 pooled trust security on which the Company recognized an other-than-temporary impairment loss. The unrealized loss was primarily caused by (a) a decrease in performance and (b) a sector downgrade by several industry analysts. The credit loss was calculated by comparing expected discounted cash flows based on performance indicators of the underlying assets in the security to the carrying value of the investment.

The credit losses recognized in earnings during the three and six months ended June 30, 2014 and 2013 were as follows:

	Three Months Ended June 30,	
	2014	2013
Mortgage-backed and asset-backed securities – private labeled	—	15
Total credit losses recognized in earnings	\$—	\$15
	Six Months Ended June 30,	
	2014	2013
Mortgage-backed and asset-backed securities – private labeled	—	49
Total credit losses recognized in earnings	\$—	\$49

Credit Losses Recognized on Investments

Certain debt securities have experienced fair value deterioration due to credit losses, as well as due to other market factors, but are not otherwise other than temporarily impaired.

10

---

The following tables provide information about debt securities for which only a credit loss was recognized in income and other losses are recorded in accumulated other comprehensive income (loss).

	Accumulated Credit Losses
Credit losses on debt securities held	
April 1, 2014	\$1,150
Realized losses related to OTTI	(1,106 )
Recoveries related to OTTI	(44 )
Additions related to OTTI losses not previously recognized	—
Additions related to increases in previously recognized OTTI losses	—
June 30, 2014	\$—

	Accumulated Credit Losses
Credit losses on debt securities held	
April 1, 2013	\$1,505
Realized losses related to OTTI	(178 )
Recoveries related to OTTI	—
Additions related to OTTI losses not previously recognized	—
Additions related to increases in previously recognized OTTI losses	15
June 30, 2013	\$1,342

	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 )
Additions related to OTTI losses not previously recognized	—
Additions related to increases in previously recognized OTTI losses	—
June 30, 2014	\$—

	Accumulated Credit Losses
Credit losses on debt securities held	
January 1, 2013	\$1,737
Realized losses related to OTTI	(444 )
Recoveries related to OTTI	—
Additions related to OTTI losses not previously recognized	31
Additions related to increases in previously recognized OTTI losses	18
June 30, 2013	\$1,342

Edgar Filing: First Internet Bancorp - Form 10-Q

Amounts reclassified from accumulated other comprehensive income (loss) and the affected line items in the condensed consolidated statements of income during the three and six months ended June 30, 2014 and 2013, were as follows:

	Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) for the Three Months Ended June 30,		Affected Line Item in the Statements of Income
	2014	2013	
Securities available for sale			
Gain realized in earnings	\$125	\$19	Gain (loss) on sale of securities
OTTI losses recognized in earnings	—	(15	) Other-than-temporary impairment loss recognized in net income
Total reclassified amount before tax	125	4	Income Before Income Taxes
Tax expense	39	1	Income Tax Provision
Total reclassifications out of accumulated other comprehensive income (loss)	\$86	\$3	Net Income
	Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) for the Six Months Ended June 30,		Affected Line Item in the Statements of Income
	2014	2013	
Securities available for sale			
Gain (loss) realized in earnings	\$484	\$(166	) Gain (loss) on sale of securities
OTTI losses recognized in earnings	—	(49	) Other-than-temporary impairment loss recognized in net income
Total reclassified amount before tax	484	(215	) Income Before Income Taxes
Tax expense (benefit)	165	(75	) Income Tax Provision
Total reclassifications out of accumulated other comprehensive income (loss)	\$319	\$(140	) Net Income

Note 4: Loans Receivable

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

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

Categories of loans include:

	June 30, 2014	December 31, 2013
Real estate loans		
Residential	\$250,262	\$191,007
Commercial	201,591	142,429
Total real estate loans	451,853	333,436
Commercial loans	71,997	55,168
Consumer loans	102,843	107,562
Total loans	626,693	496,166
Deferred loan origination costs and premiums and discounts on purchased loans	4,985	4,987
Allowance for loan losses	(5,140	) (5,426
Loans receivable - net of allowance for loan losses	\$626,538	\$495,727

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

**Commercial Real Estate:** These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of property type and geographic location. Management monitors and evaluates commercial real estate loans based on property financial performance, collateral value, and other risk grade criteria. As a general rule, the Company avoids financing special use projects or properties outside of its designated market areas unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate loans versus nonowner-occupied loans.

**Commercial:** Commercial loans 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 loans are secured by the assets being financed and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis.

**Residential and Consumer:** With respect to residential loans that are secured by 1-4 family residences and are generally owner occupied, the Company generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in 1-4 family residences. Repayment on residential loans can be impacted by changes in property values on residential properties. Consumer loans are secured by consumer assets such as automobiles, horse trailers, or recreational vehicles. Some consumer loans are unsecured, such as small installment 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.

### Allowance for Loan Losses Methodology

Company policy is designed to ensure that an adequate allowance for loan losses (“ALLL”) is maintained. The portfolio is segmented by loan type. 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 twelve months. Management believes the historical loss experience methodology is appropriate in the current economic environment, as it captures loss rates that are comparable to the current period being analyzed. Management adds qualitative factors for observable trends, changes in internal practices, changes in delinquencies and impairments, and external factors. Observable factors include changes in the composition and size of portfolios, as well as loan terms or concentration levels. The Company evaluates the impact of internal changes such as management and staff experience levels or modification to loan review processes. Delinquency trends are scrutinized for both volume and severity of past due, nonaccrual, classified or graded loans as well as any changes in the value of underlying collateral. Finally, the Company considers the effect of other external factors such as national, regional and local economic and business conditions, as well as competitive, legal and regulatory requirements. All criticized, classified, and impaired loans are evaluated for impairment by applying at least one of three methodologies: present value of future cash flows; fair value of collateral less cost to sell; or the loan’s observable market price. All troubled debt restructurings (“TDR”) are considered impaired loans. Loans evaluated for impairment are removed from other pools to prevent double-counting.

### Provision (Credit) for Loan Losses

A provision for estimated losses on loans is charged to operations based upon management’s evaluation of the potential losses. Such an evaluation, which includes a review of all loans for which full collectability 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 endeavors 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.

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 and allows existing methods for recognizing interest income.

### 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 off 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. All charge-offs are approved by the Chief Credit Officer.

The following tables present changes in the balance of the ALLL during the three and six month periods ended June 30, 2014 and 2013:

	Three Months Ended June 30, 2014				Total
	Residential Real Estate	Commercial Real Estate	Commercial	Consumer	
Allowance for loan losses:					
Balance, beginning of period	\$1,044	\$2,696	\$871	\$777	\$5,388
Provision (credit) charged to expense	239	(302)	(136)	126	(73)
Losses charged off	(89)	—	—	(166)	(255)

Edgar Filing: First Internet Bancorp - Form 10-Q

Recoveries	9	1	—	70	80
Balance, end of period	\$1,203	\$2,395	\$735	\$807	\$5,140

14

---



Edgar Filing: First Internet Bancorp - Form 10-Q

	Six Months Ended June 30, 2014					
	Residential Real Estate	Commercial Real Estate	Commercial	Consumer	Total	
Allowance for loan losses:						
Balance, beginning of period	\$1,219	\$2,517	\$819	\$871	\$5,426	
Provision (credit) charged to expense	173	(123	) (84	) 108	74	
Losses charged off	(211	) —	—	(335	) (546	)
Recoveries	22	1	—	163	186	
Balance, end of period	\$1,203	\$2,395	\$735	\$807	\$5,140	

	Three Months Ended June 30, 2013					
	Residential Real Estate	Commercial Real Estate	Commercial	Consumer	Total	
Allowance for loan losses:						
Balance, beginning of period	\$1,022	\$3,082	\$466	\$1,178	\$5,748	
Provision (credit) charged to expense	(49	) 74	11	(12	) 24	
Losses charged off	—	(238	) —	(162	) (400	)
Recoveries	11	—	70	74	155	
Balance, end of period	\$984	\$2,918	\$547	\$1,078	\$5,527	

	Six Months Ended June 30, 2013					
	Residential Real Estate	Commercial Real Estate	Commercial	Consumer	Total	
Allowance for loan losses:						
Balance, beginning of period	\$1,149	\$3,107	\$371	\$1,206	\$5,833	
Provision (credit) charged to expense	(130	) 49	106	133	158	
Losses charged off	(54	) (238	) —	(398	) (690	)
Recoveries	19	—	70	137	226	
Balance, end of period	\$984	\$2,918	\$547	\$1,078	\$5,527	

The following tables present the recorded investment in loans based on portfolio segment and impairment method as of June 30, 2014, and December 31, 2013:

	June 30, 2014				
	Residential Real Estate	Commercial Real Estate	Commercial	Consumer	Total
Loans:					
Ending balance	\$250,262	\$201,591	\$71,997	\$102,843	\$626,693
Ending balance: individually evaluated for impairment	1,059	1,048	—	241	2,348
Ending balance: collectively evaluated for impairment	\$249,203	\$200,543	\$71,997	\$102,602	\$624,345
Allowance for loan losses:					
Ending Balance	\$1,203	\$2,395	\$735	\$807	\$5,140
Ending balance: individually evaluated for impairment	—	—	—	23	23
Ending balance: collectively evaluated for impairment	\$1,203	\$2,395	\$735	\$784	\$5,117



Edgar Filing: First Internet Bancorp - Form 10-Q

	December 31, 2013				
	Residential Real Estate	Commercial Real Estate	Commercial	Consumer	Total
Loans:					
Ending balance	\$ 191,007	\$ 142,429	\$ 55,168	\$ 107,562	\$ 496,166
Ending balance: individually evaluated for impairment	1,684	1,054	—	339	3,077
Ending balance: collectively evaluated for impairment	\$ 189,323	\$ 141,375	\$ 55,168	\$ 107,223	\$ 493,089
Allowance for loan losses:					
Ending Balance	\$ 1,219	\$ 2,517	\$ 819	\$ 871	\$ 5,426
Ending balance: individually evaluated for impairment	116	98	—	28	242
Ending balance: collectively evaluated for impairment	\$ 1,103	\$ 2,419	\$ 819	\$ 843	\$ 5,184

The Company utilizes a risk grading matrix to assign a risk grade to each of its commercial loans. Loans are graded on a scale of 1 to 8. A description of the general characteristics of the eight risk grades is as follows:

Grades 1 & 2 - These grades are assigned to loans with very high credit quality borrowers of investment or near investment grade or where the loan is primarily secured by cash or conservatively margined high quality marketable securities. These borrowers are generally publicly traded, have significant capital strength, possess investment grade public debt ratings, demonstrate low leverage, exhibit stable earnings and growth and have ready access to various financing alternatives.

Grades 3 & 4 - Loans assigned these grades include loans to borrowers possessing solid credit quality with acceptable risk. Borrowers in these grades are differentiated from higher grades on the basis of size (capital and/or revenue), leverage, asset quality, stability of the industry or specific market area and quality/coverage of collateral. These borrowers generally have a history of consistent earnings and reasonable leverage.

Grade 5 - This grade includes "Pass Grade" loans to borrowers which require special monitoring because of deteriorating financial results, declining credit ratings, decreasing cash flow, increasing leverage, marginal collateral coverage or industry stress that has resulted or may result in a changing overall risk profile.

Grade 6 - This grade is for "Special Mention" loans in accordance with regulatory guidelines. This grade is intended to include loans to borrowers whose credit quality has clearly deteriorated and where risk of further decline is possible unless active measures are taken to correct the situation. Weaknesses are considered potential at this state and are not yet fully defined.

Grade 7 - This grade includes "Substandard" loans in accordance with regulatory guidelines. Loans categorized in this grade possess a well-defined credit weakness, and the likelihood of repayment from the primary source is uncertain. Significant financial deterioration has occurred, and very close attention is warranted to ensure the full repayment without loss. Collateral coverage may be marginal, and the accrual of interest has been suspended.

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

Nonaccrual Loans

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

16

---

Edgar Filing: First Internet Bancorp - Form 10-Q

placed on nonaccrual 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.

The following tables present the credit risk profile of the Company's loan portfolio based on rating category and payment activity as of June 30, 2014 and December 31, 2013:

	June 30, 2014	
	Commercial Real Estate	Commercial
Rating:		
1-5 Pass	\$198,260	\$69,481
6 Special Mention	2,283	2,516
7 Substandard	1,048	—
8 Doubtful	—	—
Total	\$201,591	\$71,997

	June 30, 2014	
	Residential Real Estate	Consumer
Performing	\$250,236	\$102,757
Nonaccrual	26	86
Total	\$250,262	\$102,843

	December 31, 2013	
	Commercial Real Estate	Commercial
Rating:		
1-5 Pass	\$139,052	\$54,035
6 Special Mention	2,323	1,133
7 Substandard	1,054	—
8 Doubtful	—	—
Total	\$142,429	\$55,168

	December 31, 2013	
	Residential Real Estate	Consumer
Performing	\$190,377	\$107,412
Nonaccrual	630	150
Total	\$191,007	\$107,562

The following tables present the Company's loan portfolio aging analysis as of June 30, 2014 and December 31, 2013:

	June 30, 2014					Total Loans		
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable	Non-accrual Loans	90 Days or More Past Due and Accruing
Residential real estate	\$201	\$—	\$—	\$201	\$250,061	\$250,262	\$26	\$—
	—	—	955	955	200,636	201,591	1,048	—

Edgar Filing: First Internet Bancorp - Form 10-Q

Commercial real  
estate

Commercial	—	—	—	—	71,997	71,997	—	—
Consumer	121	16	66	203	102,640	102,843	86	17
Total	\$322	\$16	\$1,021	\$1,359	\$625,334	\$626,693	\$1,160	\$17

17

---

Edgar Filing: First Internet Bancorp - Form 10-Q

December 31, 2013

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable	Non- accrual Loans	Total Loans 90 Days or More Past Due and Accruing
Residential real estate	\$122	\$—	\$603	\$725	\$190,282	\$191,007	\$630	\$—
Commercial real estate	—	—	955	955	141,474	142,429	1,054	—
Commercial	—	—	—	—	55,168	55,168	—	—
Consumer	484	45	84	613	106,949	107,562	150	18
Total	\$606	\$45	\$1,642	\$2,293	\$493,873	\$496,166	\$1,834	\$18

Impaired Loans

A loan is designated as impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16) 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 insignificant delays not exceeding 90 days outstanding are not considered impaired. Certain nonaccrual and substantially all delinquent loans 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 commercial 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.

The following table presents the Company's impaired loans as of June 30, 2014 and December 31, 2013:

	June 30, 2014			December 31, 2013		
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans without a specific valuation allowance						
Residential real estate loans	\$1,059	\$1,066	\$—	\$1,551	\$1,842	\$—
Commercial real estate loans	1,048	1,506	—	956	2,310	—
Commercial loans	—	—	—	—	—	—
Consumer loans	190	200	—	271	326	—
Total	2,297	2,772	—	2,778	4,478	—
Loans with a specific valuation allowance						
Residential real estate loans	—	—	—	133	141	116
Commercial real estate loans	—	—	—	98	98	98
Commercial loans	—	—	—	—	—	—
Consumer loans	51	67	23	68	80	28
Total	51	67	23	299	319	242
Total impaired loans						

Edgar Filing: First Internet Bancorp - Form 10-Q

Residential real estate loans	1,059	1,066	—	1,684	1,983	116
Commercial real estate loans	1,048	1,506	—	1,054	2,408	98
Commercial loans	—	—	—	—	—	—
Consumer loans	241	267	23	339	406	28
Total	\$2,348	\$2,839	\$23	\$3,077	\$4,797	\$242

18

---



Edgar Filing: First Internet Bancorp - Form 10-Q

The table below presents average balances and interest income recognized for impaired loans during both the three and six month periods ended June 30, 2014 and June 30, 2013:

	June 30, 2014				June 30, 2013			
	Three Months Ended		Six Months Ended		Three Months Ended		Six Months Ended	
	Average Balance	Interest Income	Average Balance	Interest Income	Average Balance	Interest Income	Average Balance	Interest Income
Loans without a specific valuation allowance								
Residential real estate loans	\$1,107	\$5	\$1,290	\$11	\$2,122	\$7	\$2,097	\$14
Commercial real estate loans	1,049	3	1,050	3	—	—	—	—
Commercial loans	—	—	—	—	—	—	—	—
Consumer loans	234	12	265	17	345	9	357	21
Total	2,390	20	2,605	31	2,467	16	2,454	35
Loans with a specific valuation allowance								
Residential real estate loans	13	—	18	—	40	1	171	1
Commercial real estate loans	—	—	—	—	2,210	2	2,295	3
Commercial loans	—	—	—	—	—	—	—	—
Consumer loans	54	1	66	1	95	2	95	4
Total	67	1	84	1	2,345	5	2,561	8
Total impaired loans								
Residential real estate loans	1,120	5	1,308	11	2,162	8	2,268	15
Commercial real estate loans	1,049	3	1,050	3	2,210	2	2,295	3
Commercial loans	—	—	—	—	—	—	—	—
Consumer loans	288	13	331	18	440	11	452	25
Total	\$2,457	\$21	\$2,689	\$32	\$4,812	\$21	\$5,015	\$43

#### Troubled Debt Restructurings (“TDRs”)

The loan portfolio includes TDRs which are loans that have been modified to grant economic concessions 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 consecutive months.

When loans are modified in a TDR, any possible impairment similar to other impaired loans is evaluated based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, or using 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 allowance or charge-off to the allowance. In periods subsequent to modification, all TDRs, including those that have payment defaults, are evaluated for possible impairment, and impairment is recognized through the allowance.

In the course of working with troubled borrowers, the Company may choose to restructure the contractual terms of certain loans in an effort to work out an alternative payment schedule with the borrower in order to optimize the collectability of the loan. Any loan modified is reviewed by the Company to identify if a TDR has occurred (when the Company grants a concession to the borrower that it would not otherwise consider based on economic or legal reasons

related to a borrower's financial difficulties). Terms may be modified to fit the ability of the borrower to repay in line with its current financial status or the loan may be restructured to secure additional collateral and/or guarantees to support the debt, or a combination of the two.

Edgar Filing: First Internet Bancorp - Form 10-Q

Loans classified as TDRs during the three and six months ended June 30, 2014 and 2013 are shown in the tables below. The 2014 and 2013 modifications consisted solely of maturity date concessions.

	New TDRs During the Three Months Ended					
	June 30, 2014			June 30, 2013		
	Number of Contracts	Recorded Balance Before	Recorded Balance After	Number of Contracts	Recorded Balance Before	Recorded Balance After
Real estate loans:						
Residential	—	\$—	\$—	—	\$—	\$—
Commercial	—	—	—	—	—	—
Total real estate loans	—	—	—	—	—	—
Commercial loans	—	—	—	—	—	—
Consumer loans	—	—	—	1	15	15
Total loans	—	\$—	\$—	1	\$15	\$15

	New TDRs During the Six Months Ended					
	June 30, 2014			June 30, 2013		
	Number of Contracts	Recorded Balance Before	Recorded Balance After	Number of Contracts	Recorded Balance Before	Recorded Balance After
Real estate loans:						
Residential	—	\$—	\$—	—	\$—	\$—
Commercial	—	—	—	—	—	—
Total real estate loans	—	—	—	—	—	—
Commercial loans	—	—	—	—	—	—
Consumer loans	1	21	21	3	17	17
Total loans	1	\$21	\$21	3	\$17	\$17

There were no TDR loans which had payment defaults during the three and six months ended June 30, 2014 and 2013. Default occurs when a loan is 90 days or more past due or transferred to nonaccrual within twelve months of restructuring.

Note 5: Premises and Equipment

Premises and equipment at June 30, 2014 and December 31, 2013 consisted of the following:

	June 30, 2014	December 31, 2013
Land	\$2,500	\$2,500
Building and improvements	2,910	2,858
Furniture and equipment	5,051	4,883
Less: accumulated depreciation	(3,328)	(3,107)
	\$7,133	\$7,134

In 2013, the Company acquired an office building with approximately 52,000 square feet of office space and related real estate located in Fishers, Indiana. The Company acquired the property for the current and future operations of the Bank for \$4,083. The cost basis of the building is being depreciated on a straight-line basis over 39 years.



## Note 6: Goodwill

The change in the carrying amount of goodwill for the periods ended June 30, 2014 and December 31, 2013 were:

Balance as of January 1, 2013	\$4,687
Changes in goodwill during the year	—
Balance as of December 31, 2013	4,687
Changes in goodwill during the period	—
Balance as of June 30, 2014	\$4,687

Goodwill is tested for impairment on an annual basis as of August 31, or whenever events or changes in circumstances indicate the carrying amount of goodwill exceeds its implied fair value. No events or changes in circumstances have occurred since the August 31, 2013 annual impairment test that would suggest it was more likely than not goodwill impairment existed.

## Note 7: Benefit Plans

## Employment Agreements

The Company has entered into employment or change in control agreements with certain officers that provide for the continuation of salary and certain benefits for a specified period of time under certain conditions. Under the terms of the agreements, these payments could occur in the event of a change in control of the Company, as defined, along with other specific conditions.

## 2013 Equity Incentive Plan

The 2013 Equity Incentive Plan (the “2013 Plan”) authorizes the issuance of 750,000 shares of the Company's common stock in the form of equity-based awards to employees, directors, and other eligible persons. The 2013 Plan replaced the 2006 Stock Option Plan, which had 595,500 shares of common stock available for issuance when the 2013 Plan became effective. Under the terms of the 2013 Plan, the pool of shares available for issuance may be used for available types of equity awards under the 2013 Plan, which includes stock options, stock appreciation rights, restricted stock awards, stock unit awards and other stock-based awards. All employees, consultants and advisors of the Company or any subsidiary, as well as all non-employee directors of the Company, are eligible to receive awards under the 2013 Plan.

The Company recorded \$127 and \$252 of share-based compensation expense for the three and six month periods ended June 30, 2014, respectively, related to awards made under the 2013 Plan. The Company recorded \$0 share-based compensation expense in the same periods of 2013.

The following table summarizes the status of the 2013 Plan awards as of June 30, 2014, and activity for the six months ended June 30, 2014:

	Restricted Stock Awards	Weighted-Average Grant Date Fair Value Per Share	Deferred Stock Units	Weighted-Average Grant Date Fair Value Per Share
Nonvested at January 1, 2014	46,232	\$ 25.09	—	\$ —
Granted	4,445	22.50	889	22.50
Vested	(17,636	) 24.76	(445	) 22.50
Forfeited	—	—	—	—
Nonvested at June 30, 2014	33,041	\$ 24.92	444	\$ 22.50

At June 30, 2014, there were 701,586 shares from the 2013 Plan available for future grants.

Directors Deferred Stock Plan

Until January 1, 2014, the Company had a stock compensation plan for members of the Board of Directors (“Directors Deferred Stock Plan”). The Company reserved 180,000 shares of common stock that could have been issued pursuant to

21

---

the Directors Deferred Stock Plan. The plan provided directors the option to elect to receive up to 100% of their annual retainer in either common stock or deferred stock rights. Deferred stock rights were to be settled in common stock following the end of the deferral period payable on the basis of one share of common stock for each deferred stock right.

For the three and six months ended June 30, 2013, the Company recorded \$34 and \$63 of expense, respectively, related to awards made from the Directors Deferred Stock Plan. Awards were granted on January 1 at fair value and vested from January 1 until December 31. The Company recognized compensation expense ratably over the vesting period based upon the fair value of the stock on the grant date. The Directors Deferred Stock Plan ended on December 31, 2013. In place of a similar plan for 2014, as of January 1, 2014, the Company issued tandem awards of shares of restricted stock and deferred stock units to each of its non-employee directors under the 2013 Plan. Each award had a grant date fair value of \$20 and represents the non-cash component of the compensation payable for the directors' service during 2014. The economic terms of the awards are substantially the same as the non-cash retainer compensation the non-employee directors received for 2013 in the form of director deferred stock rights.

The following is an analysis of deferred stock rights related to the Directors Deferred Stock Plan for the six months ended June 30, 2014:

	Deferred Stock Rights
Outstanding, beginning of period	79,676
Granted	425
Exercised	—
Outstanding, end of period	80,101

All deferred stock rights granted during the 2014 period were additional rights issued in lieu of cash dividends payable on outstanding deferred stock rights.

Note 8: Fair Value of Financial Instruments

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

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

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

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

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

Securities

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

Level 2 securities include U.S. Government-sponsored enterprises, mortgage and asset-backed securities and obligations of state, municipals and certain corporate securities. Matrix pricing is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific



investment securities but rather relying on the investment securities' relationship to other benchmark quoted investment securities.

In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include certain other securities. Fair values are calculated using discounted cash flows. Discounted cash flows are calculated based off of the anticipated future cash flows updated to incorporate loss severities and volatility. Rating agency and industry research reports as well as default and deferral activity are reviewed and incorporated into the calculation.

#### Loans Held-for-Sale

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

#### Forward Contracts

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

#### Interest Rate Lock Commitments

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

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying condensed consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2014 and December 31, 2013:

	Fair Value	June 30, 2014 Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government-sponsored enterprises	\$ 19,928	\$—	\$ 19,928	\$—
Mortgage-backed and asset-backed securities - government-sponsored enterprises	137,605	—	137,605	—
Other securities	1,995	1,995	—	—
Total available for sale securities	159,528	1,995	157,533	—
Loans held-for-sale (mandatory pricing agreements)	19,130	—	19,130	—
Forward contracts	(310)	(310)	—	—
Interest rate lock commitments	447	—	—	447



	Fair Value	December 31, 2013 Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government-sponsored enterprises	\$56,277	\$—	\$56,277	\$—
Municipals	46,323	—	46,323	—
Mortgage-backed and asset-backed securities - government-sponsored enterprises	73,941	—	73,941	—
Mortgage-backed and asset-backed securities - private labeled	1,232	—	1,232	—
Other securities	3,636	1,963	—	1,673
Total available for sale securities	181,409	1,963	177,773	1,673
Loans held-for-sale (mandatory pricing agreements)	24,254	—	24,254	—
Forward contracts	227	227	—	—
Interest rate lock commitments	79	—	—	79

ASC Topic 825, Financial Instruments, permits entities to measure recognized financial assets and financial liabilities using either historical cost or the fair value option at specified election dates. During 2013, the Company began using derivative financial instruments to manage exposure to interest rate risk in its mortgage banking business. These derivative financial instruments are recorded at fair value with changes in fair value reflected in noninterest income on the condensed consolidated statements of income.

To mitigate the volatility reported in earnings caused by measuring related assets and liabilities differently, the Company has elected the fair value option for the hedged item, mortgage loans held-for-sale under mandatory pricing agreements that were originated on or after April 1, 2013. The Company continues to record mortgage loans held-for-sale under best-efforts pricing agreements at the lower of cost or fair value. Prior to April 1, 2013, all mortgage loans held-for-sale were carried at the lower of cost or fair value.

The following table presents the fair value and aggregate principal balance of loans held-for-sale under the fair value option:

	June 30, 2014			December 31, 2013		
	Aggregate Value	Gain	Fair Value	Aggregate Value	Loss	Fair Value
Loans held-for-sale	\$18,744	\$386	\$19,130	\$24,258	\$(4 )	\$24,254

Edgar Filing: First Internet Bancorp - Form 10-Q

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying condensed consolidated balance sheets using significant unobservable (Level 3) inputs:

	Three Months Ended	
	Securities Available for Sale	Interest Rate Lock Commitments
Balance, April 1, 2014	\$1,811	\$170
Total realized and unrealized gains and (losses) Included in net income	(259	) 277
Included in other comprehensive income (loss)	(1,552	) —
Balance, June 30, 2014	\$—	\$447
Balance, April 1, 2013	\$1,168	\$—
Total realized and unrealized gains and (losses) Included in net income	—	(78 )
Included in other comprehensive income (loss)	363	—
Balance, June 30, 2013	\$1,531	\$(78 )
	Six Months Ended	
	Securities Available for Sale	Interest Rate Lock Commitments
Balance, January 1, 2014	\$1,673	\$79
Total realized and unrealized gains and (losses) Included in net income	(259	) 368
Included in other comprehensive income (loss)	(1,414	) —
Balance, June 30, 2014	\$—	\$447
Balance as of January 1, 2013	\$840	\$—
Total realized and unrealized gains and (losses) Included in net income	—	(78 )
Included in other comprehensive income (loss)	691	—
Balance, June 30, 2013	\$1,531	\$(78 )

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

#### Impaired Loans (Collateral Dependent)

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral, less costs to sell, for collateral dependent loans.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a

discount factor to the value.

Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

25

---

The following tables present the fair value measurements of impaired loans recognized in the accompanying condensed consolidated balance sheets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fell at June 30, 2014 and December 31, 2013:

	Fair Value	June 30, 2014 Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$32	\$—	\$—	\$32

  

	Fair Value	December 31, 2013 Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$137	\$—	\$—	\$137

Unobservable (Level 3) Inputs

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

	Fair Value at June 30, 2014	Valuation Technique	Unobservable Inputs	Range
Collateral dependent impaired loans	\$32	Fair value of collateral	Discount for type of property and current market conditions	31% - 65%
IRLCs	\$447	Discounted cash flow	Loan closing rates	44% - 95%

  

	Fair Value at December 31, 2013	Valuation Technique	Unobservable Inputs	Range
Other securities	\$1,673	Discounted cash flow	Discount margin	6% - 12.5%
			Cumulative default %	2% - 100%
			Loss given default %	85% - 100%
			Cumulative prepayment %	0% - 100%
Collateral dependent impaired loans	\$137	Fair value of collateral	Discount for type of property and current market conditions	0% - 54%
IRLCs	\$79	Discounted cash flow	Loan closing rates	53% - 97%

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

#### Cash and Cash Equivalents

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

#### Loans Held-for-Sale

The fair value of these financial instruments approximates carrying value.

#### Interest-Bearing Time Deposits

The fair value of these financial instruments approximates carrying value.

#### Loans Receivable

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

#### Accrued Interest Receivable

The fair value of these financial instruments approximates carrying value.

#### Federal Home Loan Bank Stock

The carrying amount approximates fair value.

#### Deposits

The fair value of noninterest-bearing demand deposits and savings and NOW accounts is the amount payable as of the reporting date. The fair value of fixed maturity certificates of deposit is estimated using rates currently offered for deposits of similar remaining maturities.

#### FHLB Advances

The fair value of fixed rate advances is estimated using rates currently offered for similar remaining maturities.

#### Accrued Interest Payable

The fair value of these financial instruments approximates carrying value.

#### Subordinated Debt

The fair value of our subordinated debt is estimated using discounted cash flow analysis, based on our current incremental borrowing rates for similar type of borrowing arrangements.

#### Commitments

Edgar Filing: First Internet Bancorp - Form 10-Q

The fair value of commitments to extend credit are based on fees currently charged to enter into similar agreements with similar maturities and interest rates. The Company determined that the fair value of commitments was zero based on the contractual value of outstanding commitments at each of June 30, 2014 and December 31, 2013.



Edgar Filing: First Internet Bancorp - Form 10-Q

The following schedule includes the carrying value and estimated fair value of all financial assets and liabilities at June 30, 2014 and December 31, 2013:

	June 30, 2014			
	Carrying Amount	Fair Value Measurements Using		
		Quoted Prices In Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$20,644	\$20,644	\$—	\$—
Interest-bearing time deposits	2,000	2,000	—	—
Loans held-for-sale (best efforts pricing agreements)	2,336	—	2,336	—
Loans receivable – net	626,538	—	—	628,488
Accrued interest receivable	2,694	2,694	—	—
FHLB stock	2,943	—	2,943	—
Deposits	744,173	377,623	—	370,136
FHLB advances	21,845	—	23,096	—
Subordinated debt	2,831	—	2,962	—
Accrued interest payable	96	96	—	—
	December 31, 2013			
	Carrying Amount	Fair Value Measurements Using		
		Quoted Prices In Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$53,690	\$53,690	\$—	\$—
Interest-bearing time deposits	2,500	2,500	—	—
Loans held-for-sale (best efforts pricing agreements)	4,356	—	4,356	—
Loans receivable - net	495,727	—	—	500,447
Accrued interest receivable	2,904	2,904	—	—
FHLB stock	2,943	—	2,943	—
Deposits	673,095	362,634	—	315,179
FHLB advances	31,793	—	33,415	—
Subordinated debt	2,789	—	2,978	—
Accrued interest payable	102	102	—	—

Note 9: Derivative Financial Instruments

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

commitment to fund the loans.

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

28

---

Edgar Filing: First Internet Bancorp - Form 10-Q

consolidated balance sheets while derivative instruments with a negative fair value are reported in accrued expenses and other liabilities in the condensed consolidated balance sheets.

At June 30, 2014 and December 31, 2013 the notional amount and fair value of IRLCs and forward contracts utilized by the Company were as follows:

	June 30, 2014		December 31, 2013	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Asset Derivatives				
Derivatives not designated as hedging instruments				
IRLCs	\$27,724	\$447	\$20,752	\$79
Forward contracts	—	—	30,628	227
Liability Derivatives				
Derivatives not designated as hedging instruments				
Forward contracts	45,750	(310)	—	—

Fair values of derivative financial instruments were estimated using changes in mortgage interest rates from the date the Company entered into the IRLC and the balance sheet date. Periodic changes in the fair value of the derivative financial instruments on the condensed consolidated statements of income for the three and six month periods ended June 30, 2014 and 2013 were as follows:

	Amount of gain / (loss) recognized			
	June 30, 2014		June 30, 2013	
	Three Months Ended	Six Months Ended	Three Months Ended	Six Months Ended
Asset Derivatives				
Derivatives not designated as hedging instruments				
IRLCs	\$277	\$368	—	\$—
Forward contracts	—	\$—	1,208	\$1,208
Liability Derivatives				
Derivatives not designated as hedging instruments				
IRLCs	\$—	\$—	\$(78)	\$(78)
Forward contracts	(342)	\$(537)	\$—	\$—

Note 10: Subordinated Debenture

On June 28, 2013, the Company entered into a subordinated debenture purchase agreement with a third party and issued a subordinated debenture in the principal amount of \$3,000, which bears interest at a fixed annual rate of 8.00%, and is scheduled to mature on June 28, 2021; however, the Company can repay the debenture without premium or penalty at any time after June 28, 2016. The debenture qualifies for treatment as Tier 2 capital for regulatory capital purposes. The purchase agreement and the debenture contain customary subordination provisions and events of default; however, the right of the investor to accelerate the payment of the debenture is limited to bankruptcy or insolvency.

As partial inducement for the third party to purchase the debenture, the Company issued to the third party a warrant to purchase up to 48,750 shares of common stock at an initial per share exercise price equal to \$19.33. The warrant became exercisable on June 28, 2014 and, unless previously exercised, will expire on June 28, 2021. The Company

Edgar Filing: First Internet Bancorp - Form 10-Q

has the right to force an exercise of the warrant after the debenture has been repaid in full if the 20-day volume-weighted average price of a share of its common stock exceeds \$30.00.

The Company used the Black-Scholes option pricing model to assign a fair value of \$255 to the warrant as of June 28, 2013. The following assumptions were used to value the warrant: a risk-free interest rate of 0.66% per the U.S. Treasury

29

---

yield curve in effect at the date of issuance, an expected dividend yield of 1.19% calculated using the dividend rate and stock price at the date of the issuance, and an expected volatility of 34% based on the estimated volatility of the Company's stock over the expected term of the warrant, which is estimated to be three years.

Note 11: Shareholders' Equity

In 2013, the Company completed a public offering of 1.587 million shares of its common stock and received net proceeds of approximately \$29,101.

Note 12: Accounting Developments

Accounting Standards Update ("ASU" or "Update") 2014-01, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (January 2014)

This Update permits entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The ASU modifies the conditions that an entity must meet to be eligible to use a method other than the equity or cost methods to account for qualified affordable housing project investments. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. The amendments in this Update should be applied retrospectively to all periods presented. Adoption of the ASU is not expected to have a significant effect on the Company's consolidated financial statements.

ASU 2014-04, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (January 2014)

The objective of this Update is to reduce diversity by clarifying when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. The amendments in this Update may be adopted using either a modified retrospective transition method or a prospective transition method. Adoption of the ASU is not expected to have a significant effect on the Company's consolidated financial statements.

ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (April 2014).

This Update seeks to better define the groups of assets which qualify for discontinued operations, in order to ease the burden and cost for preparers and stakeholders. This issue changed "the criteria for reporting discontinued operations" and related reporting requirements, including the provision for disclosures about the "disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation." The amendments in this Update are effective for fiscal years beginning after December 15, 2014. Early adoption is permitted only for disposals or classifications as held for sale. The Company will adopt the methodologies prescribed by this ASU by the date required. Adoption of the ASU is not expected to have a significant effect on the Company's consolidated financial statements.

ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (May 2014).

Section A - Summary and Amendments That Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs - Contracts with Customers (Subtopic 340-40)

Section B - Conforming Amendments to Other Topics and Subtopics in the Codification and Status Tables

Section C - Background Information and Basis for Conclusions

The topic of Revenue Recognition had become broad with several other regulatory agencies issuing standards, which lacked cohesion. The new guidance establishes a “comprehensive framework” and “reduces the number of requirements to which an entity must consider in recognizing revenue” and yet provides improved disclosures to assist stakeholders reviewing financial statements. The amendments in this Update are effective for annual reporting periods beginning after December 15, 2016. Early adoption is not permitted. The Company will adopt the methodologies prescribed by this ASU by the date required. Adoption of the ASU is not expected to have a significant effect on the Company's consolidated financial statements.

ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures (June 2014).

This Update addresses the concerns of stakeholders' by changing the accounting practices surrounding repurchase agreements. The new guidance changes the "accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements." The amendments in this Update are effective for annual reporting periods beginning after December 15, 2014. Early adoption is prohibited. The Company will adopt the methodologies prescribed by this ASU by the date required. Adoption of the ASU is not expected to have a significant effect on the Company's consolidated financial statements.

ASU 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (June 2014).

This Update defines the accounting treatment for share-based payments and "resolves the diverse accounting treatment of those awards in practice." The new requirement mandates that "a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition." Compensation cost will now be recognized in the period in which it becomes likely that the performance target will be met. The amendments in this Update are effective for annual reporting periods beginning after December 15, 2015. Early adoption is permitted. The Company will adopt the methodologies prescribed by this ASU by the date required. Adoption of the ASU is not expected to have a significant effect on the Company's consolidated financial statements.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated and condensed financial statements and related notes appearing elsewhere in this report. This discussion and analysis includes certain forward-looking statements that involve risks, uncertainties and assumptions. You should review the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2013 for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by such forward-looking statements. See also "Cautionary Note Regarding Forward-Looking Statements" at the beginning of this report.

#### Overview

First Internet Bancorp is a bank holding company that conducts its business activities through its wholly-owned subsidiary, First Internet Bank, an Indiana chartered bank. The Bank was the first state-chartered, FDIC-insured Internet bank. We offer a full complement of retail (consumer) deposit and loan products and services on a nationwide basis. We conduct our retail operations primarily over the Internet and have no branch offices.

The Bank commenced banking operations in 1999 and grew organically in the consumer market in its early years by adding new customers, products, and capabilities through its Internet-based platform. The Company was incorporated under the laws of the State of Indiana on September 15, 2005. On March 21, 2006, we consummated a plan of exchange by which we acquired all of the outstanding shares of the Bank. In 2007, we acquired Indianapolis-based Landmark Financial Corporation. The acquisition merged Landmark Savings Bank, FSB, into the Bank. The Landmark acquisition added a turnkey retail mortgage lending operation that we then expanded on a nationwide basis through our Internet platform. Since then, we have added commercial real estate (CRE) lending, including a nationwide credit tenant lease financing program, and more recently, commercial and industrial (C&I) lending and business banking/treasury management services to meet the needs of high-quality, under-served commercial borrowers and depositors. Our commercial banking activities are highly dependent on establishing and maintaining strong relationships with our business customers.

#### Results of Operations

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

##### Three Months Ended June 30, 2014 versus Three Months Ended June 30, 2013

Net income in the three months ended June 30, 2014 was \$977, or \$0.22 per diluted share, compared to \$1,712, or \$0.59 per diluted share, for the prior year period. The decline in net income from the prior year period reflected the 64% decrease in mortgage banking income, primarily attributed to a nationwide slowing in residential mortgage refinancings. Per share net income was also impacted by the 1.62 million increase in common shares from the Company's fourth quarter 2013 public offering.

For the three months ended June 30, 2014, net interest income increased 27% to \$5,373 compared to \$4,236 for the prior year period. The increase reflected greater revenue from commercial and residential mortgage loans. Interest expense was up 16% over the 2013 period on a 33% increase in average deposits. The Company's cost of funds declined to 1.18% for the three months ended June 30, 2014 from 1.35% in the 2013 period. The Company's net interest margin was 2.61% in the three months ended June 30, 2014 compared to 2.78% in the 2013 period, the result of lower yields on new loan originations and elevated cash balances while the Company rebalanced its securities portfolio.



## Edgar Filing: First Internet Bancorp - Form 10-Q

Noninterest income for the three months ended June 30, 2014 was \$1,622 compared with \$3,719 in the prior year period. The decrease in noninterest income occurred due to a \$2,228 decline in income from mortgage banking activities from the prior year period. Noninterest income as a percentage of average assets decreased from 2.32% for the three months ended June 30, 2013 to 0.75% for the three months ended June 30, 2014.

Income, defined as interest income plus noninterest income, as a percentage of average assets decreased from 6.16% for the three months ended June 30, 2013 to 4.30% for the three months ended June 30, 2014. The decrease reflected the Company's 34% growth in average assets and the 64% decrease in income from mortgage banking activities, which were partially offset by a 24% increase in interest income from the year-ago period.

## Edgar Filing: First Internet Bancorp - Form 10-Q

- Total noninterest expense in the the three months ended June 30, 2014 was \$5,560 compared with \$5,525 in the same period of 2013. Noninterest expense as a percentage of average assets decreased 86 basis points from 3.45% in the three months ended June 30, 2013 to 2.59% in the three months ended June 30, 2014.

Return on average assets for the 2014 period was 0.45% compared to 1.07% for the prior year period.

Return on average equity for the 2014 period was 4.23% compared to 10.86% for the prior year period.

Net charge-offs as a percentage of average loans were 0.12% for the three months ended June 30, 2014 compared to 0.25% for the prior year period.

### Six Months Ended June 30, 2014 versus Six Months Ended June 30, 2013

Net income in the six months ended June 30, 2014 was \$1,577, or \$0.35 per diluted share, compared to \$3,200, or \$1.11 per diluted share, for the prior year period. The decline in net income from the prior year period reflected the 67% decrease in mortgage banking income, primarily attributed to a nationwide slowing in residential mortgage refinancings. Per share net income was also impacted by the 1.62 million increase in common shares from the Company's fourth quarter 2013 public offering.

For the six months ended ended June 30, 2014, net interest income increased 26% to \$10,239 compared to \$8,129 for the prior year period. The increase reflected greater revenue from commercial and residential mortgage loans. Interest expense was up 14% over the six months ended ended June 30, 2013 on a 32% increase in average deposits. The Company's cost of funds declined to 1.20% for the six months ended June 30, 2014 from 1.37% in the six months ended June 30, 2013. The Company's net interest margin was 2.56% in the six months ended June 30, 2014 compared to 2.69% in the 2013 period, the result of lower yields on new loan originations and elevated cash balances while the Company rebalanced its securities portfolio.

Noninterest income for the six months ended June 30, 2014 was \$3,133 compared with \$6,706 in the prior year period. The decrease in noninterest income occurred due to a \$4,339 year-over-year decline in income from mortgage banking activities. Noninterest income as a percentage of average assets decreased from 2.12% for the six months ended June 30, 2013 to 0.75% for the six months ended June 30, 2014.

Income, defined as interest income plus noninterest income, as a percentage of average assets decreased from 5.92% for the six months ended June 30, 2013 to 4.27% for the six months ended June 30, 2014. The decrease reflected the Company's 32% growth in average assets from the year-ago period and the 67% decrease in income from mortgage banking activities, which were partially offset by a 22% increase in interest income from the year-ago period.

Total noninterest expense in the the six months ended June 30, 2014 was \$10,998 compared with \$10,088 in the same period of 2013. Noninterest expense as a percentage of average assets decreased 55 basis points, from 3.19% in the six months ended June 30, 2013 to 2.64% in the six months ended June 30, 2014.

Return on average assets for the 2014 period was 0.38% compared to 1.01% for the prior year period.

Return on average equity for the 2014 period was 3.45% compared to 10.33% for the prior year period.

Net charge-offs as a percentage of average loans were 0.13% for the six months ended June 30, 2014 compared to 0.23% for the prior year period.



## Average Balance Sheets, Net Interest Earnings

For the periods presented, the following tables provide the total dollar amount of interest income from average interest-earning assets and the resulting yields. They also highlight the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, and the net interest margin. 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.

Average Balance Sheets  
(dollars in thousands)

	Three Months Ended June 30, 2014			2013				
	Average Balance	Interest and Dividends	Yield/Cost	Average Balance	Interest and Dividends	Yield/Cost		
Assets:								
Interest-earning assets:								
Loans	\$580,539	\$6,571	4.54	%	\$399,457	\$4,861	4.88	%
Investment securities – taxable	244,213	1,041	1.71	%	172,441	902	2.10	%
Investment securities – non-taxable	—	—	—	%	40,336	396	3.94	%
Total interest-earning assets	824,752	7,612	3.70	%	612,234	6,159	4.03	%
Noninterest-earning assets	37,358				30,937			
Total assets	\$862,110				\$643,171			
Liabilities and equity:								
Interest-bearing liabilities:								
Regular savings accounts	\$19,023	\$29	0.61	%	\$14,263	\$21	0.60	%
Interest-bearing demand deposits	72,519	99	0.55	%	71,059	98	0.55	%
Money market accounts	267,232	486	0.73	%	213,917	398	0.75	%
Certificates and brokered deposits	349,894	1,308	1.50	%	234,220	1,139	1.95	%
Total interest-bearing deposits	708,668	1,922	1.09	%	533,459	1,656	1.24	%
Other borrowings	34,538	317	3.68	%	25,118	267	4.26	%
Total interest-bearing liabilities	743,206	2,239	1.21	%	558,577	1,923	1.38	%
Noninterest-bearing deposits	18,821				13,490			
Other non-interest bearing liabilities	7,442				7,858			
Total liabilities	769,469				579,925			
Shareholders' equity	92,641				63,246			
Total liabilities and equity	\$862,110				643,171			
Net interest income		\$5,373				\$4,236		
Interest rate spread <sup>(1)</sup>			2.49	%			2.65	%
Net interest margin <sup>(2)</sup>			2.61	%			2.78	%
Average interest-earning assets to average interest-bearing liabilities			110.97	%			109.61	%

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

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

34

---

Edgar Filing: First Internet Bancorp - Form 10-Q

(dollars in thousands)	Six Months Ended June 30,			2013				
	2014	Interest and Dividends	Yield/Cost	Average Balance	Interest and Dividends	Yield/Cost		
Assets:								
Interest-earning assets:								
Loans	\$559,198	\$12,700	4.58	%	\$411,675	\$9,903	4.85	%
Investment securities – taxable	242,936	1,887	1.57	%	157,334	1,386	2.15	%
Investment securities – non-taxable	3,600	58	3.25	%	40,800	699	3.45	%
Total interest-earning assets	805,734	14,645	3.67	%	609,809	11,988	3.96	%
Noninterest-earning assets	34,826				27,465			
Total assets	\$840,560				\$637,274			
Liabilities and equity:								
Interest-bearing liabilities:								
Regular savings accounts	\$18,784	\$56	0.60	%	\$13,820	\$40	0.59	%
Interest-bearing demand deposits	71,439	194	0.55	%	69,806	191	0.55	%
Money market accounts	265,119	961	0.73	%	209,256	777	0.75	%
Certificates and brokered deposits	339,053	2,571	1.53	%	232,544	2,276	1.97	%
Total interest-bearing deposits	694,395	3,782	1.10	%	525,426	3,284	1.26	%
Other borrowings	29,873	624	4.21	%	28,582	575	4.06	%
Total interest-bearing liabilities	724,268	4,406	1.23	%	554,008	3,859	1.38	%
Noninterest-bearing deposits	18,492				12,849			
Other non-interest bearing liabilities	5,570				7,960			
Total liabilities	748,330				574,817			
Shareholders' equity	92,230				62,457			
Total liabilities and equity	\$840,560				\$637,274			
Net interest income		\$10,239				\$8,129		
Interest rate spread <sup>(1)</sup>			2.44	%			2.56	%
Net interest margin <sup>(2)</sup>			2.56	%			2.69	%
Average interest-earning assets to average interest-bearing liabilities			111.25	%			110.07	%

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

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

## Rate/Volume Analysis

The following tables set forth certain information regarding changes in our interest income and interest expense for the periods indicated. For each category of earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (change in average volume multiplied by old rate); and (ii) changes in rates (change in rate multiplied by old average volume). Changes in rate/volume (change in rate multiplied by the change in volume) have been allocated to the changes due to volume and rate in proportion to the absolute value of the changes due to volume and rate prior to the allocation.

(dollars in thousands)	Rate/Volume Analysis of Net Interest Income Three Months Ended June 30, 2014 vs. 2013 Due to Changes in		
	Volume	Rate	Net
Interest income			
Loans receivable	\$3,836	\$(2,126)	) \$1,710
Investment securities – taxable	1,027	(888)	) 139
Investment securities – non-taxable	(396)	) —	(396)
Total	4,467	(3,014)	) 1,453
Interest expense			
Deposits	1,717	(1,451)	) 266
Other interest-bearing liabilities	251	(201)	) 50
Total	1,968	(1,652)	) 316
Increase (decrease) in net interest income	\$2,499	\$(1,362)	) \$1,137

(dollars in thousands)	Rate/Volume Analysis of Net Interest Income Six Months Ended June 30, 2014 vs. 2013 Due to Changes in		
	Volume	Rate	Net
Interest income			
Loans receivable	\$4,346	\$(1,549)	) \$2,797
Investment securities – taxable	1,555	(1,054)	) 501
Investment securities – non-taxable	(602)	) (39)	) (641)
Total	5,299	(2,642)	) 2,657
Interest expense			
Deposits	1,836	(1,338)	) 498
Other interest bearing liabilities	27	22	49
Total	1,863	(1,316)	) 547
Increase (decrease) in net interest income	\$3,436	\$(1,326)	) \$2,110

## Financial Condition

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

## Comparison of June 30, 2014 to December 31, 2013

Total assets were \$868,107 at June 30, 2014 compared to \$802,342 at December 31, 2013, an increase of \$65,765, or 8%.

Net loans receivable increased 26% from \$495,727 at December 31, 2013 to \$626,538 at June 30, 2014. Total commercial and industrial loan balances increased \$16,829, or 31%, at June 30, 2014 versus December 31, 2013. Commercial real estate loans, which include owner occupied loans, represented an increase of \$59,162, or 42%, at June 30, 2014 from December 31, 2013. Credit tenant lease financing experienced the largest growth within the commercial real estate portfolio, up \$59,374, or 71%, since December 31, 2013.

Credit quality improved during the period as nonperforming loans decreased 36% from December 31, 2013 to June 30, 2014. Nonperforming loans to total loans receivable decreased to 0.19% at June 30, 2014 compared with 0.37% at December 31, 2013. Nonperforming assets as a percentage of total assets decreased to 0.69% at June 30, 2014 from 0.90% at December 31, 2013. The allowance for loan losses to total nonperforming loans increased to 436.70% from 292.98% at December 31, 2013. Due to the improvement in credit quality, the allowance for loan losses to total loans receivable decreased to 0.82% at June 30, 2014 compared to 1.09% at December 31, 2013.

Total deposits grew to \$744,173 at June 30, 2014, compared with \$673,095 at December 31, 2013, with a lower cost of funds and without the use of brokered deposits.

Tangible common equity increased \$3,626 from \$86,221 at December 31, 2013 to \$89,847 at June 30, 2014. Tangible book value per common share increased 4% from \$19.38 at December 31, 2013 to \$20.19 at June 30, 2014. A reconciliation of tangible common equity and tangible book value per common share to the most directly comparable measure under U.S. GAAP appears later in this discussion under "Non-GAAP Performance Measures."

## Loan Portfolio Analysis

The table below provides a detailed listing of the Company's loan portfolio:

(dollars in thousands)	June 30, 2014		December 31, 2013		
Real estate loans:					
Residential Mortgage	\$186,537	29.77	% \$153,101	30.86	%
Home Equity Lines of Credit	63,725	10.17	% 37,906	7.64	%
Commercial – Credit tenant lease	143,547	22.90	% 84,173	16.96	%
Commercial – Other	58,044	9.26	% 58,256	11.74	%
Total real estate loans	451,853	72.10	% 333,436	67.20	%
Commercial loans	71,997	11.49	% 55,168	11.12	%
Consumer loans – Trailers	66,456	10.60	% 68,991	13.90	%
Consumer loans – Recreational vehicle	32,882	5.25	% 34,738	7.00	%
Consumer loans – Other	3,505	0.56	% 3,833	0.78	%
Total loans	626,693	100.00	% 496,166	100.00	%
Net deferred loan fees, premiums and discounts	4,985		4,987		
Allowance for losses	(5,140)	)	(5,426)	)	
Net loans receivable	\$626,538		\$495,727		





Edgar Filing: First Internet Bancorp - Form 10-Q

Asset Quality and Allowance for Loan Loss

(dollars in thousands)	June 30, 2014	December 31, 2013		
Nonaccrual loans:				
Real estate loans:				
Residential	\$26	\$630		
Commercial	1,048	1,054		
Total real estate loans	1,074	1,684		
Commercial loans	—	—		
Consumer loans	86	150		
Total nonaccrual loans	1,160	1,834		
Accruing loans past due 90 days or more:				
Real estate loans:				
Residential	—	—		
Commercial	—	—		
Total real estate loans	—	—		
Commercial loans	—	—		
Consumer loans	17	18		
Total accruing loans past due 90 days or more	17	18		
Total nonperforming loans	1,177	1,852		
Other real estate owned:				
Residential	293	368		
Commercial	4,371	4,013		
Total other real estate owned	4,664	4,381		
Other nonperforming assets	120	956		
Total nonperforming assets	\$5,961	\$7,189		
Total nonperforming loans to total loans	0.19	% 0.37	%	
Total nonperforming assets to total assets	0.69	% 0.90	%	

Troubled Debt Restructurings

(dollars in thousands)	June 30, 2014	December 31, 2013
Troubled debt restructurings – nonaccrual	\$26	\$27
Troubled debt restructurings – performing	1,189	1,243
Total troubled debt restructurings	\$1,215	\$1,270

Total nonperforming assets decreased \$1,228, or 17%, to \$5,961 at June 30, 2014 from \$7,189 at December 31, 2013. Total nonperforming loans decreased by \$675, or 36%, from December 31, 2013 to June 30, 2014 reflecting a \$934 decrease in delinquencies. Other nonperforming assets decreased \$836, or 87%, from \$956 at December 31, 2013 to \$120 at June 30, 2014. The Company sold all of its nonaccrual securities during the six months ended June 30, 2014, resulting in the decrease in other nonperforming assets. The Company has one commercial property in other real estate owned at June 30, 2014. This property



consists of two buildings which are residential units on a college campus. Improvements have been made in collaboration with the university and the property continues to be occupied.

Nonperforming assets and troubled debt restructurings to total assets decreased from 1.05% at December 31, 2013 to 0.82% at June 30, 2014. The allowance for loan losses as a percentage of total loans receivable decreased from 1.09% at December 31, 2013 to 0.82% at June 30, 2014.

Nonperforming loans are comprised of loans past due 90 days or more and other nonaccrual loans. Nonperforming assets include nonperforming loans, impaired investment securities, other real estate owned, and other assets which are primarily repossessed vehicles.

Deposits (dollars in thousands)	June 30, 2014		December 31, 2013		
Regular savings accounts	\$16,861	2.27	% \$14,330	2.13	%
Non-interest bearing	19,065	2.56	% 19,386	2.88	%
Interest-bearing	73,843	9.92	% 73,748	10.96	%
Money market accounts	267,854	35.99	% 255,169	37.91	%
Certificates of deposit	348,752	46.87	% 292,685	43.48	%
Brokered deposits	17,890	2.40	% 17,890	2.66	%
Premiums on brokered deposits	(92	) (0.01	)% (113	) (0.02	)%
Total	\$744,173	100.00	% \$673,095	100.00	%

Our independence from a traditional branch delivery system permits us to offer competitive rates for interest-bearing accounts, as needed, in order to fund loan growth. As noted in the table above, total deposits increased \$71,078, or 11%, to \$744,173 at June 30, 2014 from \$673,095 at December 31, 2013.

#### Investment Securities

The following table summarizes the book value and approximate fair value and distribution of our investment securities as of the dates indicated:

(dollars in thousands)	June 30, 2014		December 31, 2013	
	Amortized Cost	Approximate Fair Value	Amortized Cost	Approximate Fair Value
Securities available-for-sale				
U.S. Government-sponsored enterprises	\$20,204	\$19,928	\$57,569	\$56,277
Municipals	—	—	46,126	46,323
Mortgage-backed and asset-backed securities – government-sponsored enterprises	137,189	137,605	75,058	73,941
Mortgage-backed and asset-backed securities – private labeled	—	—	1,313	1,232
Other securities	2,000	1,995	5,025	3,636
Total securities available for sale	\$159,393	\$159,528	\$185,091	\$181,409

In the three months ended June 30, 2014, the Company continued the restructuring and repositioning of its securities portfolio that began in early 2014 by selling a portion of the portfolio, including the ALESCO IV and I-PreTSL I collateralized debt obligations. During the three months ended March 31, 2014, the Company sold all of the municipal securities that were held in the securities portfolio at December 31, 2013. The actions taken in 2014 are intended to further mitigate interest rate risk and credit risk, while also reducing the overall size of the securities portfolio.

Premises and Equipment

The Bank does not serve its retail or commercial customer base through a branch network. During 2013, the Company acquired an office building with approximately 52,000 square feet of office space and related real estate in Fishers, Indiana for

39

---

\$4,083. The Bank uses the Fishers property for some of its administrative operations and not as a branch. The Company's headquarters, located in Indianapolis, Indiana, is leased. The Bank also operates loan production offices from leased spaces in Tempe, Arizona and Portland, Oregon.

### Shareholders' Equity

Shareholders' equity increased to \$94,534 at June 30, 2014 compared to \$90,908 at December 31, 2013. This was the result of net income for the six months ended June 30, 2014 of \$1,577, other comprehensive income of \$2,459, and the recognition of \$252 of the fair value of share based compensation. These increases were offset by \$541 of dividends declared on common stock, \$71 of common stock redeemed for the net settlement of share-based awards, and other changes of \$50. Tangible common equity to tangible assets decreased from 10.81% at December 31, 2013 to 10.41% at June 30, 2014.

At June 30, 2014, the Company and the Bank exceeded all applicable regulatory capital minimum requirements, and the Bank was considered "well-capitalized" under applicable regulations.

(dollars in thousands)	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Actions		
	Amount	Ratio	Amount	Ratio	Amount	Ratio	
As of June 30, 2014:							
Total capital (to risk-weighted assets)							
Consolidated	\$97,900	15.30	% \$51,182	8.0	% N/A	N/A	
Bank	79,905	12.53	% 51,036	8.0	% 63,795	10.0	%
Tier 1 capital (to risk-weighted assets)							
Consolidated	89,760	14.03	% 25,591	4.0	% N/A	N/A	
Bank	74,765	11.72	% 25,518	4.0	% 38,277	6.0	%
Tier 1 capital (to average assets)							
Consolidated	89,760	10.45	% 34,369	4.0	% N/A	N/A	
Bank	74,765	8.72	% 34,298	4.0	% 42,872	5.0	%

### Liquidity and Capital Resources

The Company's primary source of funds is dividends from the Bank, the declaration of which is subject to regulatory limits. Most recently, the Bank's Board of Directors declared a cash dividend of \$250 in June 2013. There have been no subsequent declaration of dividends by the Bank.

The Company's Board of Directors declared a cash dividend for the second quarter of 2014 of \$0.06 per share of common stock payable July 15, 2014 to shareholders of record on June 30, 2014. The Company's Board of Directors also declared a cash dividend for the third quarter of 2014 of \$0.06 per share of common stock payable October 15, 2014 to shareholders of record on September 30, 2014. The Company expects to continue to pay dividends on a quarterly basis; however, the declaration and amount of any future dividends will be determined by the Board of Directors on the basis of financial condition, earnings, regulatory constraints and other factors.

At June 30, 2014, the Company had \$182,172 in cash, interest-bearing time deposits, and investment securities available for sale and \$21,466 in loans held-for-sale that were generally available for our cash needs compared to

## Edgar Filing: First Internet Bancorp - Form 10-Q

\$237,599 and \$28,610 at December 31, 2013, respectively. At June 30, 2014, the Company had the ability to borrow an additional \$96,000 in FHLB advances and correspondent bank fed funds line of credit draws. At June 30, 2014, the Company, on an unconsolidated basis, had \$16,476 in cash generally available for its cash needs.

We believe our capital resources are sufficient to meet our current and expected needs, including any cash dividends we may pay. However, we may require additional capital resources to accommodate continued growth.

At June 30, 2014, approved outstanding loan commitments, including unused lines of credit, amounted to \$69,950 compared to \$49,100 at December 31, 2013, an increase of \$20,850. Commercial unfunded loan commitments accounted for

## Edgar Filing: First Internet Bancorp - Form 10-Q

\$16,387 of the increase as the Company continued to expand its commercial lending business. Certificates of deposit scheduled to mature in one year or less at June 30, 2014, totaled \$193,945. Generally, we believe that a majority of maturing deposits will remain with the Bank due to our competitive rates.

### Non-GAAP Performance Measures

Tangible common equity, tangible assets, and tangible book value per common share are financial performance measures not recognized in U.S. GAAP. Our management, banking regulators, many financial analysts, and other investors use these non-GAAP financial measures to compare the capital adequacy of banking organizations with significant amounts of preferred equity and/or goodwill or other intangible assets, which typically stem from the use of the purchase accounting method of accounting for mergers and acquisitions. Tangible common equity, tangible assets, tangible book value per share, or related measures should not be considered as a substitute for total shareholders' equity, total assets, book value per share or any other measure calculated in accordance with GAAP. Moreover, the manner in which we calculate these measures may differ from those of other companies reporting measures with similar names. The following table reconciles these non-GAAP performance measures and a capital ratio using such measures to the most directly comparable GAAP measure or ratio.

(dollars in thousands, except share data)	June 30, 2014		December 31, 2013	
Total equity - GAAP	\$94,534		\$90,908	
Adjustments				
Goodwill	(4,687	)	(4,687	)
Tangible common equity	\$89,847		\$86,221	
Total assets - GAAP	\$868,107		\$802,342	
Adjustments				
Goodwill	(4,687	)	(4,687	)
Tangible assets	\$863,420		\$797,655	
Total common shares	4,449,619		4,448,326	
Book value per common share	\$21.25		\$20.44	
Effect of adjustment	(1.06	)	(1.06	)
Tangible book value per common share	\$20.19		\$19.38	
Total shareholders' equity to assets ratio	10.89	%	11.33	%
Effect of adjustment	(0.48	)	(0.52	)
Tangible common equity to tangible assets ratio	10.41	%	10.81	%

### Critical Accounting Policies and Estimates

There have been no material changes in our critical accounting policies from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013.

### Future Accounting Pronouncements

Refer to Note 12 of the condensed consolidated financial statements.

### Off-Balance Sheet Arrangements



In the ordinary course of business, the Company enters into financial transactions to extend credit and forms of commitments that may be considered off-balance sheet arrangements. 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 June 30, 2014 and December 31, 2013, we had commitments to sell residential real estate loans of \$45,750 and \$30,628, respectively. These contracts mature in less than one year. We do not believe that off-balance sheet arrangements will have a material impact on our liquidity or capital resources.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

### ITEM 4. CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information we are required to disclose in reports that we file or submit 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 our 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, we have 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.

We performed an evaluation under the supervision and with the participation of our management, including our principal executive and principal financial officers, 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 and principal financial officer, concluded that our disclosure controls and procedures were effective as of June 30, 2014.

#### Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended June 30, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors previously disclosed in Part I, Item 1A, of our Annual Report on Form 10-K for the year ended December 31, 2013.

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

Not Applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

Not Applicable.

ITEM 6. EXHIBITS

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

Exhibit No.	Description
3.1	Articles of Incorporation of First Internet Bancorp (incorporated by reference to Exhibit 3.1 to registration statement on Form 10 filed November 30, 2012)
3.2	Amended and Restated Bylaws of First Internet Bancorp, as amended March 18, 2013 (incorporated by reference to Exhibit 3.2 to annual report on Form 10-K for the year ended December 31, 2012)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certifications
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

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

FIRST INTERNET BANCORP

Date: 8/12/2014

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

Date: 8/12/2014

By /s/ Kay E. Whitaker  
Kay E. Whitaker,  
Senior Vice President-Finance and Chief Financial  
Officer (Principal Financial Officer)

EXHIBIT INDEX

Exhibit No.	Description	Method of Filing
3.1	Articles of Incorporation of First Internet Bancorp	Incorporated by Reference
3.2	Amended and Restated Bylaws of First Internet Bancorp, as amended March 18, 2013	Incorporated by Reference
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	Filed Electronically
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer	Filed Electronically
32.1	Section 1350 Certifications	Filed Electronically
101.INS	XBRL Instance Document	Filed Electronically
101.SCH	XBRL Taxonomy Extension Schema	Filed Electronically
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	Filed Electronically
101.DEF	XBRL Taxonomy Extension Definition Linkbase	Filed Electronically
101.LAB	XBRL Taxonomy Extension Label Linkbase	Filed Electronically
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	Filed Electronically