First Internet Bancorp
Form 10-K
March 13, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)

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

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

Title of class	Name of exchange on which registered
Common stock, without par value	NASDAQ Capital Market

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).
Yes þ No ¨

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

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

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

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

The aggregate market value of common stock held by non-affiliates of the registrant as of June 30, 2014, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $84.3 million, based on the closing sale price for the registrant's common stock on that date. For purposes of determining this number, all officers and directors of the registrant are considered to be affiliates of the registrant. This number is provided only for the purpose of this report and does not represent an admission by either the registrant or any such person as to the status of such person.

As of March 6, 2015, the registrant had 4,486,563 shares of common stock issued and outstanding.

Documents Incorporated By Reference

Portions of our Proxy Statement for the annual meeting of shareholders to be held on May 18, 2015 are incorporated by reference in Part III.

Forward-Looking Statements

This annual report on Form 10-K contains “forward-looking statements” within the meaning of the federal securities laws. These statements are not historical facts, rather statements based on 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,” “plan” 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 this report under the heading “Risk Factors” and in other reports filed with the Securities and Exchange Commission (“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.

PART I

Item 1. Business

General

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

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

Our principal office is located at 8888 Keystone Crossing, Suite 1700, Indianapolis, Indiana 46240; our website is www.firstinternetbancorp.com; and our telephone number is (317) 532-7900.

As of December 31, 2014, we had total assets of $970.5 million, total liabilities of $873.7 million, and shareholders' equity of $96.8 million.

Business Strategies

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

Performance

Growth. Total assets have increased 92.6% from $503.9 million at December 31, 2010 to $970.5 million at December 31, 2014. This increase was driven primarily by strong organic growth. During the same time period, loans receivable increased from $306.4 million to $732.4 million and deposits increased from $422.7 million to $758.6 million, increases of 139.0% and 79.5%, respectively. Our sustained growth profile is the result of our flexible and highly scalable Internet banking strategy that allows us to target a broad reach of customers across 50 states. Additionally, key strategic commercial banking hires have enabled us to further expand our product offerings on both a local and national basis. At December 31, 2014, CRE and C&I loans comprised 48.3% of loans receivable compared to 8.1% at December 31, 2010.

Earnings Trend. We have generated positive net income for the last five years. Net income was $4.3 million for the year ended December 31, 2014.

Asset Quality. We have maintained a high quality loan portfolio due to our emphasis on a strong credit culture, conservative underwriting standards, and a diverse national and local customer base. At December 31, 2014, our nonperforming assets to total assets was 0.50%, our nonperforming loans to total loans receivable was 0.04% and our allowance for loan losses to total loans receivable was 0.79%.

Strategic Focus

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

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

Commercial Banking Growth. Over the past several years, we have diversified our operations by adding commercial banking to complement our consumer platform. We offer traditional CRE loans, single tenant lease financing, C&I loans, asset based lending, corporate credit cards, and treasury management services. Our commercial lending teams consist of seasoned commercial bankers, most of whom have had extensive careers with larger money center, super-regional or regional banks. These lenders leverage deep market knowledge and experience to serve commercial borrowers with a relationship-based approach. We are continuing to develop new products and services for this market which is expected to produce additional revenue. We also intend to grow and expand our commercial banking platform by hiring additional seasoned loan officers and relationship managers with specialized market or product expertise.

Experience. Our management team and our Board of Directors are integral to our success. Our management team and Board of Directors are led by David B. Becker, the founder of First Internet Bank of Indiana. Mr. Becker is a seasoned business executive and entrepreneur with over three decades of management experience in the financial services and financial technology space, and has served as our Chief Executive Officer since 2005. Mr. Becker has been the recipient of numerous business awards, including Ernst & Young Entrepreneur of the Year in 2002, and is an inductee to the Central Indiana Business Hall of Fame. The senior management team is complemented by a dedicated Board of Directors with a wide range of experience from careers in financial services, legal and regulatory services, and industrial services.

The leaders of our lending teams and members of their staff are highly seasoned, career bankers who bring deep banking knowledge and relationships from regional, super-regional or money center banks. Our management team has a wealth of banking knowledge from a wide variety of backgrounds which gives us significant market insight and allows us to leverage their comprehensive, long-term customer relationships. We organize our lending teams as follows: Commercial and Industrial, Commercial Real Estate, Consumer, and Mortgage Banking. We will continue to search for seasoned bankers who can add new lending verticals and sources of revenue.

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

Maintain Asset Quality, Diversified Loan Portfolio and Effective Underwriting. We place an emphasis on our strong credit culture and strict underwriting standards of diverse loan products to maintain our excellent credit quality. At December 31, 2014, the loan portfolio consisted of 37.7% CRE, 10.6% C&I, 13.3% consumer, and 38.4% residential real estate loans.

Efficiency Through Technology. To date, we have pursued growth in a prudent and disciplined fashion. We will continue to monitor our efficiency ratio and intend to invest in and utilize technology to compete more effectively as we grow in the future. Through our online account access services, augmented by our team of dedicated banking specialists, we can satisfy all of the needs of our retail and commercial customers in an efficient manner. Our data processing systems run on a "real-time" basis, unlike many banks that run a "batch system", so customers benefit from an up-to-the-minute picture of their financial position-particularly our commercial customers, who complete numerous transactions in a single day. We believe we have built a scalable banking infrastructure based upon technology, rather than a traditional branch network, and that our Internet banking processes are capable of supporting continued growth

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

Lending Activities

Residential Mortgage Lending. We offer first-lien residential mortgage loans in 50 states and second-lien (home equity) loans as well as home equity lines of credit in 47 states. We offer loans for home buyers (purchase money) as well as existing homeowners who wish to refinance their current loans. Over the past two years, we have re-focused our business model to emphasize purchase mortgage business while also allowing us the flexibility to capitalize on refinance activity. In 2014, approximately 60% of the loans we originated were refinances, compared to 70% in 2013 and 87% in 2012.

We attract credit-worthy loan applicants through disciplined online lead generation efforts and through repeat business from past customers. We track our acquisition costs vigilantly and use customer relationship management tools to track prospects and identify the most likely sales opportunities on which to focus our efforts.

We currently sell the vast majority of our conforming conventional (fixed rate) loans in the secondary market and thereby avoid the potential interest rate risk of these loans. We generally retain variable rate non-conforming (jumbo) loans in our portfolio.

In 2014, we expanded our residential mortgage lending capabilities with a construction lending initiative. The program allows Central Indiana homeowners to finance the construction of a new home and convert the loan to a mortgage loan upon completion of construction, with only one visit to the closing table.

We also actively promote home equity loans and lines of credit through our Internet channel, leveraging our robust yet easy-to-use customer-facing toolset. We continue to expand our efforts to complement our first-lien products.

Consumer Lending. While we offer consumer loans and credit cards through our website to a nationwide consumer base, the majority of our consumer loans have been acquired through indirect dealer networks, primarily horse trailers and recreational vehicles (RVs). In recent years, we expanded our recreational product dealer network and implemented a new loan origination system to improve both the customer experience and document tracking during the underwriting process.

Commercial Real Estate Lending. The vast majority of our traditional investment real estate loans are secured by office, retail, industrial, single family residential, and multi-family properties located in the State of Indiana, with single tenant, long term lease financing originated on a nationwide basis. At December 31, 2014, $273.9 million, or 37.7% of our loan portfolio consisted of CRE loans.

We believe our CRE portfolio will continue its growth in two ways: (1) regionally, in more traditional short and intermediate-term financing arrangements supporting local developers and conventional property types (office, retail, industrial, residential development & construction, multi-family); and (2) nationally, where we will concentrate on intermediate and longer term financing of properties occupied by single tenants committed to long-term leases with borrowers providing significant cash equity in relation to the amount borrowed.

Commercial and Industrial Lending. Historically, we originated C&I loans as a result of referrals we received from customers and third parties. In 2011, we established a C&I lending team through the recruitment of seasoned relationship managers focused on serving commercial borrowers in the Central Indiana area. In 2013, we expanded our commercial lending capabilities by opening a loan production office in Tempe, Arizona and by creating a new division that offers asset based lending services. Operating under the name First Internet Bank Business Capital, the new asset based lending division provides working capital to small-to-medium sized companies in the form of revolving lines of credit backed by accounts receivable and inventory as well as term loans backed by real estate and equipment.

The recent increase in our C&I lending activity is intended to further diversify our lending portfolio and increase opportunities for new business. In addition to commercial loan originations, C&I relationships can result in new deposits, fee income from treasury management products, and opportunities to cross-sell other products such as residential mortgage loans and consumer home equity and installment loans. C&I customers and their advisors also serve as referral sources for additional new business opportunities. In order to attract deposits from C&I borrowers, which diversifies our deposit mix and reduces our cost of funds, and to enhance our noninterest income, we offer these borrowers expanded online account access and treasury management service capabilities.

Loan Portfolio Analysis

(dollars in thousands)	December 31,														
	2014			2013			2012			2011			2010		
Real estate loans:															
Residential	$279,046	38.4	%	$191,007	38.5	%	$128,815	36.3	%	$143,452	43.3	%	$106,729	35.3	%
Commercial	273,855	37.7	%	142,429	28.7	%	84,918	24.0	%	43,507	13.1	%	19,563	6.5	%
Total real estate loans	552,901	76.1	%	333,436	67.2	%	213,733	60.3	%	186,959	56.4	%	126,292	41.8	%
Commercial loans	77,232	10.6	%	55,168	11.1	%	14,271	4.0	%	2,063	0.6	%	4,919	1.6	%
Consumer loans	97,094	13.3	%	107,562	21.7	%	126,486	35.7	%	142,783	43.0	%	171,122	56.6	%
	727,227	100.0	%	496,166	100.0	%	354,490	100.0	%	331,805	100.0	%	302,333	100.0	%
Net deferred loan fees, costs, premiums and discounts	5,199			4,987			3,671			3,421			4,057		
Total loans receivable	732,426			501,153			358,161			335,226			306,390		
Allowance for loan losses	(5,800	)		(5,426	)		(5,833	)		(5,656	)		(6,845	)	
Net loans receivable	$726,626			$495,727			$352,328			$329,570			$299,545		

Loan Maturities

The following table shows the contractual maturity distribution intervals of the outstanding loans in our portfolio as of December 31, 2014.

(dollars in thousands)	Real Estate Residential	Commercial	Commercial	Consumer	Total
Amounts due in:					
One year or less	$1,352	$19,060	$13,259	$2,015	$35,686
More than one to two years	643	25,019	5,887	2,197	$33,746
More than two to three years	514	4,728	6,556	3,420	$15,218
More than three to five years	554	70,480	29,821	18,594	$119,449
More than five to ten years	1,652	140,831	21,269	56,782	$220,534
More than ten to fifteen years	7,933	13,619	440	14,086	$36,078
More than fifteen years	266,398	118	—	—	$266,516
Total	$279,046	$273,855	$77,232	$97,094	$727,227

Fixed vs. Adjustable Rate Loans

The following table shows the distribution of the outstanding loans in our portfolio between those with variable or floating interest rates and those with fixed or predetermined interest rates as of December 31, 2014.

(dollars in thousands) Due after December 31, 2014

	Fixed	Adjustable	Total
Real estate loans:			
Residential	$30,599	$248,447	$279,046
Commercial	221,382	52,473	$273,855
Total real estate loans	251,981	300,920	$552,901
Commercial loans	55,725	21,507	$77,232
Consumer loans	96,146	948	$97,094
Total loans	$403,852	$323,375	$727,227

Loan Activity

The following table shows loan activity for the years ended December 31, 2014 and 2013.

(dollars in thousands)	Year ended December 31,	
	2014	2013
Total loans at beginning of period:	$496,166	$354,490
Loans originated:		
Real estate loans:		
Residential	33,991	29,004
Commercial	176,619	91,128
Commercial loans	72,185	46,975
Consumer loans	27,086	23,335
Total loans originated	309,881	190,442
Loans Purchased[1]:		
Real estate loans:		
Residential	104,894	59,254
Commercial	—	—
Commercial loans	—	21,892
Consumer loans	—	—
Total loans purchased	104,894	81,146
Add (Deduct):		
Principal repayments	(182,857)	(128,137)
Net other	(857)	(1,775)
Net loan activity	231,061	141,676
Total loans at end of period	$727,227	$496,166

[1] Excludes premiums paid or discounts received.

Nonperforming Assets

Loans are reviewed at least annually unless certain events or circumstances warrant more frequent reviews and any loan for which collectability is doubtful is placed on nonaccrual status. Loans are placed on nonaccrual status when either principal or interest is 90 days or more past due, unless, in the judgment of management, the loan is well collateralized and in the process of collection. Interest accrued and unpaid at the time a loan is placed on nonaccrual status is charged against interest income. Subsequent payments are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate collectability of the loan. Restructured loans include troubled debt restructurings that involved forgiving a portion of interest or principal, granting interest rate concessions, or maturity date extensions to those borrowers who may be experiencing financial difficulties. Foreclosed and repossessed assets include assets acquired in the settlement of loans.

The following table sets forth the amounts and categories of nonperforming assets in our portfolio as of the dates indicated.

(dollars in thousands)	December 31, 2014	2013	2012	2011	2010
Nonaccrual loans[(1)]:					
Real estate loans:					
Residential	$25	$630	$1,389	$876	$2,841
Commercial	87	1,054	2,362	7,523	3,593
Total real estate loans	112	1,684	3,751	8,399	6,434
Commercial loans	—	—	—	—	1,539
Consumer loans	123	150	155	224	683
Total nonaccrual loans	235	1,834	3,906	8,623	8,656
Accruing loans past due 90 days or more:					
Real estate loans:					
Residential	57	—	450	75	—
Commercial	—	—	—	—	900
Total real estate loans	57	—	450	75	900
Commercial loans	—	—	—	—	—
Consumer loans	4	18	21	56	30
Total accruing loans past due 90 days or more	61	18	471	131	930
Total nonperforming loans	296	1,852	4,377	8,754	9,586
Real estate owned:					
Residential	—	368	265	448	591
Commercial	4,488	4,013	3,401	1,064	1,616
Total real estate owned	4,488	4,381	3,666	1,512	2,207
Other nonperforming assets	82	956	2,253	3,113	5,118
Total nonperforming assets	4,866	7,189	10,296	13,379	16,911
Troubled debt restructurings not included in nonaccruals	1,125	1,243	1,412	1,086	360
Troubled debt restructurings and total nonperforming assets	$5,991	$8,432	$11,708	$14,465	$17,271

(1) Includes nonperforming troubled debt restructurings.

(dollars in thousands)	December 31, 2014	2013	2012	2011	2010
Troubled debt restructurings:					
Real estate loans:					
Residential – Accruing	$1,013	$1,054	$1,092	$817	$360
Residential – Non-accruing	—	27	29	285	—
Commercial – Non-accruing	—	—	510	510	—
Total real estate loans	1,013	1,081	1,631	1,612	360
Consumer loans – Accruing	112	189	319	269	—
Consumer loans – Non-accruing	5	—	20	89	—
Total troubled debt restructurings	$1,130	$1,270	$1,970	$1,970	$360
Total nonperforming loans to total loans	0.04 %	0.37 %	1.23 %	2.64 %	3.17 %
Total nonperforming assets to total assets	0.50 %	0.90 %	1.62 %	2.29 %	3.36 %
Total nonperforming assets and troubled debt restructurings to total assets	0.62 %	1.05 %	1.84 %	2.47 %	3.43 %

Classified Loans

(dollars in thousands)	December 31, 2014	2013
Special Mention loans	$379	$3,456
Substandard loans	1,608	1,054
Doubtful loans	—	—
Total classified loans	$1,987	$4,510

Delinquencies

(dollars in thousands)	December 31, 2014			2013		
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due
Real estate loans:						
Residential	$161	$—	$57	$122	$—	$603
Commercial	—	—	—	—	—	955
Total real estate loans	161	—	57	122	—	1,558
Commercial loans	—	—	—	—	—	—
Consumer loans	249	56	53	484	45	84
Total	$410	$56	$110	$606	$45	$1,642

Allocation of Allowance for Loan Losses

The determination of the allowance for loan losses and the related provision is one of our critical accounting policies that is subject to significant estimates, as discussed within the Critical Accounting Policies and Estimates section of Item 7 of Part II of this report, Management's Discussion and Analysis of Financial Condition and Results of Operations. The current level of the allowance for loan losses is a result of management’s assessment of the risks within the portfolio based on the information obtained through the credit evaluation process. The Company utilizes a risk-rating system on non-homogenous CRE and C&I loans that includes regular credit reviews to identify and quantify the risk in the commercial portfolio. Management conducts quarterly reviews of the entire loan portfolio and evaluates the need to establish allowances on the basis of these reviews.

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

The following tables reflect the allowance for loan losses and its allocations for the periods indicated.

(dollars in thousands)	December 31,														
	2014					2013					2012				
	Amount	% of Total ALLL		% of Total Loans		Amount	% of Total ALLL		% of Total Loans		Amount	% of Total ALLL		% of Total Loans	
Real estate loans:															
Residential	$1,192	20.5	%	38.4	%	$1,219	22.5	%	38.5	%	$1,149	19.7	%	36.3	%
Commercial	2,997	51.7	%	37.7	%	2,517	46.4	%	28.7	%	3,107	53.3	%	24.0	%
Commercial loans	920	15.9	%	10.6	%	819	15.1	%	11.1	%	371	6.3	%	4.0	%
Consumer loans	691	11.9	%	13.3	%	871	16.0	%	21.7	%	1,206	20.7	%	35.7	%
Total allowance for loan losses	$5,800	100.0	%	100.0	%	$5,426	100.0	%	100.0	%	$5,833	100.0	%	100.0	%

(dollars in thousands)	December 31,									
	2011					2010				
	Amount	% of Total ALLL		% of Total Loans		Amount	% of Total ALLL		% of Total Loans	
Real estate loans:										
Residential	$1,099	19.4	%	43.3	%	$2,135	31.2	%	35.3	%
Commercial	2,485	43.9	%	13.1	%	1,292	18.9	%	6.5	%
Commercial loans	333	5.9	%	0.6	%	608	8.9	%	1.6	%
Consumer loans	1,739	30.8	%	43.0	%	2,810	41.0	%	56.6	%
Total allowance for loan losses	$5,656	100.0	%	100.0	%	$6,845	100.0	%	100.0	%

Loan Loss Experience

The following table reflects activity in the allowance for loan losses for the periods indicated and selected related statistics.

(dollars in thousands)	Twelve Months Ended December 31,				
	2014	2013	2012	2011	2011
Allowance at beginning of period:	$5,426	$5,833	$5,656	$6,845	$10,097
Provision for loan losses	349	324	2,852	2,440	927
Charge offs:					
Real estate loans:					
Residential	247	164	509	811	1,158
Commercial	—	238	1,464	698	445
Commercial loans	14	—	—	612	61
Consumer loans	596	810	1,438	2,296	3,399
Total charge-offs	857	1,212	3,411	4,417	5,063
Recoveries:					
Real estate loans:					
Residential	38	98	148	141	121
Commercial	460	—	—	—	17
Commercial loans	—	70	75	19	—
Consumer loans	384	313	513	628	746
Total recoveries	882	481	736	788	884
Net (recoveries) charge-offs	(25)	731	2,675	3,629	4,179
Allowance at end of period	$5,800	$5,426	$5,833	$5,656	$6,845
Allowance to nonperforming loans	1,959.5%	293.0%	133.3%	64.6%	71.4%
Allowance to total loans outstanding at end of period	0.79%	1.09%	1.65%	1.70%	2.26%
Net charge-offs to average loans outstanding during period	0.00%	0.17%	0.69%	1.05%	1.35%

Underwriting Procedures and Standards

Loan Approval Procedures and Authority. Our lending activities follow written, non-discriminatory policies with loan approval limits approved by the Board of Directors. Loan officers have underwriting and approval authorization of varying amounts based on their years of experience in the lending field. Additionally, based on the amount of the loan, multiple approvals may be required. Per the Company’s legal lending limit, the maximum the Bank could lend to any one borrower at December 31, 2014 was $13.4 million.

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

Residential Real Estate Loans. Residential real estate loans generally include loans for the purchase or refinance of residential real estate properties consisting of 1-4 family units and home equity loans and lines of credit. We currently sell substantially all of the long-term fixed rate residential real estate loans that we originate to secondary market investors. We also release the servicing of these loans upon sale. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, contacting delinquent mortgagors, supervising foreclosures and property dispositions in the event of unremedied defaults, making certain insurance and tax payments on behalf of the borrowers and generally administering the loans.

We typically retain all adjustable rate residential real estate loans that exceed the government maximum conforming loan amount (which is currently $417,000). Loans secured by first liens on residential real estate retained in the portfolio typically do not exceed 80% of the value of the collateral, are adjustable rate, and have amortization periods of thirty years or less.

Residential real estate loans are typically underwritten to conform to industry standards including criteria for maximum debt-to-income and loan-to-value ratios as well as minimum credit scores. Our underwriting focuses on the applicant's ability to repay the loan from his or her employment and from other sources. We verify an applicant's credit information using third-party records and tax transcripts through the IRS.

Additionally, our residential mortgage underwriters use a third party product to assess the risk of the loan transaction for both the collateral and applicant. The product helps us identify suspicious mortgage loans and analyzes the property and neighborhood characteristics for each transaction. From the date of application to the date of closing, all of an applicant's credit activity is monitored. All appraisals are reviewed by our collateral underwriter, who is an Indiana state certified appraiser. The collateral underwriter has several third party products that help assess the quality of the appraisal, the comparables chosen, and the value determination.

We do not offer, and have never offered, "subprime loans" (loans that generally target borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios).

Consumer Loans. Consumer loans are primarily comprised of installment loans and credit cards. The majority of our consumer loans are horse trailer and recreational vehicle loans, underwritten by our staff for buyers whose applications were sent to us through a dealer network. Minimum underwriting criteria have been established that consider credit score, debt-to-income ratio, employment history, the advance percentage and collateral coverage. Typically, consumer loans are set up on monthly payments with amortization periods based on the type and age of the collateral.

Commercial Real Estate Loans. Traditional CRE loans are comprised of credit extended to developers or owners of real estate for the following purposes: (1) leasing space to non-related commercial entities; (2) construction and land development of residential and commercial projects; and (3) interim financing to developers/owners of multi-family residential structures, such as apartment buildings and condominiums. CRE loans are underwritten primarily based on historical and projected cash flows of the borrower and secondarily on the appraised value of the underlying real estate pledged as collateral on the debt. Single tenant lease financing activities target individual and institutional real estate investors purchasing commercial properties occupied under long-term leasing arrangements by national or regional tenants. These transactions are typically longer term in nature given the longer contractual lease periods and the reliability of the cash flow from financially sound tenants. For the various types of commercial real estate loans, minimum criteria have been established within the Bank's loan policy regarding debt service coverage while maximum limits on loan-to-value, loan term and amortization periods have been defined. Loan-to-value ratios range from 50% to 80% depending upon the type of real estate collateral, while the desired debt coverage ratio range is 1.05x to 1.80x.

The Bank's CRE loan portfolio is monitored on an ongoing basis through the completion of periodic credit reviews and site inspections, and the review of financial statement updates, property rent rolls, guarantor tax returns and personal financial statements, insurance renewals and property tax payments.

Commercial and Industrial Loans. C&I loans consist of loans for business expansion as well as working capital loans used to purchase inventory and fund accounts receivable that are secured by business assets other than real estate. Also, new equipment financing is provided to businesses with these loans generally limited to 90% of the value of the collateral and amortization periods limited to seven years. C&I loans are often accompanied by a personal guaranty of the principal owners of a business. As with CRE loans, the underlying cash flow on a historic and projected basis of the business is the primary consideration in the underwriting process, with a desired minimum debt coverage ratio of 1.20x. We also assess the management's operational effectiveness, level of equity invested in the business and customer relationships. We also consider relevant economic and industry factors, as well as competitor and supplier information relating to the applicant's business. The financial condition of commercial borrowers is monitored at least annually with the type of financial information required determined by the size of the relationship. We address the needs of businesses with higher risk profiles through the use of government-assisted lending programs through the Small Business Administration. We determine the loan structure after evaluating what is appropriate for the specific situation and establish monitoring mechanisms for going forward.

Deposit Activities and Other Sources of Funds

We obtain deposits through the ACH network (direct deposit as well as customer-directed transfers of funds from outside financial institutions), remote and mobile deposit capture, mailed checks, wire transfers, and a deposit-taking ATM network. We do not currently solicit brokered deposits, although we had approximately $13.5 million in brokered time deposits at December 31, 2014 that were originated in prior years.

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

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

Deposits

(dollars in thousands)	December 31,								
	2014			2013			2012		
Regular savings accounts	$20,776	2.7	%	$14,330	2.1	%	$11,583	2.2	%
Non-interest bearing	21,790	2.9	%	19,386	2.9	%	13,187	2.5	%
Interest-bearing demand	74,238	9.8	%	73,748	11.0	%	73,660	13.9	%
Money market accounts	267,046	35.2	%	255,169	37.9	%	202,388	38.1	%
Certificates of deposit	361,202	47.6	%	292,685	43.5	%	211,542	39.9	%
Brokered deposits	13,546	1.8	%	17,777	2.6	%	18,331	3.4	%
Total	$758,598	100.0	%	$673,095	100.0	%	$530,691	100.0	%

Time Deposits

(dollars in thousands)	December 31, 2014
Interest Rate:	
<1.00%	$189,721
1.00% – 1.99%	90,502
2.00% – 2.99%	75,615
3.00% – 3.99%	15,656
4.00% – 4.99%	734
5.00% – 5.99%	2,520
Total	$374,748

Time Deposit Maturities at December 31, 2014

(dollars in thousands)	Period to Maturity					Percentage of
	Less than 1 year	> 1 year to 2 years	> 2 years to 3 years	More than 3 years	Total	Total Certificate Accounts
Interest Rate:						
<1.00%	$163,581	$25,736	$404	$—	$189,721	50.6 %
1.00% – 1.99%	27,119	30,257	15,651	17,475	90,502	24.1 %
2.00% – 2.99%	26,406	45,021	90	4,098	75,615	20.2 %
3.00% – 3.99%	5,238	7,224	3,068	126	15,656	4.2 %
4.00% – 4.99%	734	—	—	—	734	0.2 %
5.00% – 5.99%	—	—	—	2,520	2,520	0.7 %
Total	$223,078	$108,238	$19,213	$24,219	$374,748	100.0 %

Time Deposit Maturities of $100,000 or Greater

(dollars in thousands)	December 31, 2014
Maturity Period:	
3 months or less	$42,975
Over 3 through 6 months	40,570
Over 6 through 12 months	105,173
Over 12 months	105,668
Total	$294,386

Federal Home Loan Bank Advances

Although deposits are the primary source of funds for our lending and investment activities and for general business purposes, we may obtain advances from the Federal Home Loan Bank of Indianapolis (“FHLB”) as an alternative to retail and commercial deposit funds. The following table is a summary of FHLB borrowings for the periods indicated.

(dollars in thousands)	Twelve Months Ended December 31,		
	2014	2013	2012
Balance outstanding at end of period	$106,897	$31,793	$40,686
Average amount outstanding during period	42,597	30,054	40,625
Maximum outstanding at any month end during period	106,897	31,793	40,686
Weighted average interest rate at end of period	1.58 %	2.63 %	3.22 %
Weighted average interest rate during period	2.23 %	3.53 %	3.35 %

Market Areas

The market area for our retail banking activities, primarily residential mortgage and consumer lending and deposit gathering, is nationwide. The physical location of our offices is of no consequence to our retail customers.

We also deliver our single tenant lease financing and asset based lending services nationally. We serve our traditional CRE borrowers in Indiana and bordering states. Traditional C&I banking focuses on Arizona, Indiana and bordering states. Our traditional CRE business and C&I activities are highly dependent on strong lender/borrower relationships.

Competition

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

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

For our commercial lending activities, we compete with larger financial institutions operating in the Midwest and Central Indiana regions, including Key Bank, PNC Bank, Chase, BMO Harris, Huntington National Bank, and First Financial Bank. In the Southwest, competitors include Wells Fargo, Chase, Bank of America, U.S. Bank, Bank of Arizona, and CoBiz Bank. All of these competitors have significantly greater financial resources and higher lending limits and may also offer specialized products and services we do not. For our commercial clients, we offer a highly personalized relationship and fast, local decision making.

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

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

Regulation and Supervision

General

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

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

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

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

The Dodd-Frank Act

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

Among other things, the Dodd-Frank Act provides for new capital standards that eliminate or restrict the treatment of trust preferred securities as Tier 1 capital based on the asset size of an institution. The Company has never issued any trust preferred securities. The Dodd-Frank Act permanently raised deposit insurance levels to $250,000, retroactive to January 1, 2008, and provided unlimited deposit insurance coverage for non-interest bearing transaction accounts through December 31, 2012. Pursuant to modifications under the Dodd-Frank Act, deposit insurance assessments are now being calculated based on an insured depository institution's assets rather than its insured deposits and the minimum reserve ratio of the FDIC's Deposit Insurance Fund (the "DIF") has been raised to 1.35%. The payment of interest on business demand deposit accounts is permitted by the Dodd-Frank Act. The Dodd-Frank Act authorized the Federal Reserve to regulate interchange fees for debit card transactions and established new minimum mortgage underwriting standards for residential mortgages. Further, the Dodd-Frank Act barred certain banking organizations from engaging in proprietary trading and from sponsoring and investing in hedge funds and private equity funds, except as permitted under certain limited circumstances. The Dodd-Frank Act empowered the newly established Financial Stability Oversight Council to designate certain activities as posing a risk to the U.S. financial system and to recommend new or heightened standards and safeguards for financial organizations engaging in such activities.

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

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

Holding Company Regulation

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

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

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

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

Regulation of Banks, Generally

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

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

Capital Requirements—Generally. Through December 31, 2014, FDIC regulations required insured non-member banks generally to maintain the following minimum capital standards:

- a ratio of "core capital" to adjusted total assets ("leverage ratio") of not less than 4%;

"Core capital" (also called "Tier 1 Capital") for this purpose is defined to include common shareholders' equity (excluding unrealized gains or losses on securities available for sale), noncumulative perpetual preferred stock and minority interests in consolidated subsidiaries, less all intangibles assets other than mortgage and non-mortgage servicing assets and purchased credit card relationships, noneligible credit-enhancing interest-only strips and certain deferred tax assets.

- a ratio of "core capital" to risk-weighted assets ("Tier 1 Capital Ratio") of not less than 4%; and

- a ratio of "total capital" (core and supplementary) to total risk-weighted assets ("Total Risk-Based Capital Ratio") of not less than 8%, provided that the amount of supplementary capital used to satisfy this requirement may not exceed the amount of core capital.

"Supplementary capital" (also called "Tier 2 Capital") for this purpose is defined to include the allowance for loan losses up to a maximum of 1.25% of risk-weighted assets, cumulative perpetual and certain other preferred stock, mandatory convertible debt securities and subordinated debt up to a maximum of 50% of Tier 1 Capital. In addition, up to 45% of the unrealized gains on available for sale equity securities with a readily determinable fair value may be included in supplementary capital.

In determining the amount of risk-weighted assets for purposes of the risk-based capital requirements, the Bank's balance sheet assets and the credit conversion values of certain off-balance sheet items are multiplied by specified risk-weights, generally ranging from 0% for cash and obligations issued by the U.S. Government or its agencies to 100% for consumer and commercial loans, as specified by the FDIC regulations based on the degree of risk deemed to be inherent in the particular type of asset.

The FDIC has adopted regulations to implement its capital adequacy requirements through the system of prompt corrective action established by Section 38 of the FDIA. Under the prompt corrective action regulations, at December 31, 2014, a bank is "well capitalized" if it has: (1) a Total Risk-Based Capital Ratio of 10.0% or greater; (2) a Tier 1 (Core) risk-based capital ratio of 6.0% or greater; (3) a leverage ratio of 5.0% or greater; and (4) is not subject to any written agreement, order, capital directive or prompt corrective action directive to meet and maintain a specific capital level for any capital measure. A bank is "adequately capitalized" if it has: (1) a Total Risk-Based Capital Ratio of 8.0% or greater; (2) a Tier 1 (Core) risk-based capital ratio of 4.0% or greater; and (3) a leverage ratio of 4.0% or greater (3.0% under certain circumstances) and does not meet the definition of "well capitalized".

Regulators also must take into consideration: (1) concentrations of credit risk, (2) interest rate risk and (3) risks from non-traditional activities, as well as an institution's ability to manage those risks, when determining the adequacy of an institution's capital. This evaluation will be made as a part of the institution's regular safety and soundness examination.

Generally, a bank, upon receiving notice that it is not adequately capitalized (i.e., that it is "undercapitalized"), becomes subject to the prompt corrective action provisions of Section 38 of the FDIA that, for example, (1) restrict payment of capital distributions and management fees, (2) require that the FDIC monitor the condition of the bank and its efforts to restore its capital, (3) require submission of a capital restoration plan, (4) restrict the growth of the bank's assets and (5) require prior regulatory approval of certain expansion proposals. A bank that is required to submit a capital restoration plan must concurrently submit a performance guarantee by each company that controls the bank. A bank that is "critically undercapitalized" (i.e., has a ratio of tangible equity to total assets that is equal to or less than 2.0%) will be subject to further restrictions, and generally will be placed in conservatorship or receivership within 90 days.

We are also subject to capital adequacy regulations of the Federal Reserve. These capital requirements are substantially similar to those applicable to the Bank. For bank holding companies, through December 31, 2014, the minimum Tier 1 risk-based capital ratio was 4% and the minimum Total Risk-Based Capital Ratio was 8%. In addition to the risk-based capital requirements, the Federal Reserve requires top rated bank holding companies to maintain a minimum leverage capital ratio of Tier 1 capital (defined by reference to the risk-based capital guidelines) to its average total consolidated assets of at least 3.0%. For most other bank holding companies, the minimum leverage ratio is 4.0%. Bank holding companies with supervisory, financial, operational or managerial weaknesses, as well as bank holding companies that are anticipating or experiencing significant growth, are expected to maintain capital ratios well above the minimum levels. The following summarizes our applicable capital ratios as of December 31, 2014:

(dollars in thousands)	Actual			Minimum Capital Requirement			Minimum to be Well Capitalized Under Prompt Corrective Action		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
As of December 31, 2014:									
Total capital (to risk-weighted assets)									
Consolidated	$101,033	13.75	%	$58,777	8.00	%	N/A	N/A	
Bank	89,177	12.17	%	58,600	8.00	%	$73,250	10.00	%
Tier 1 capital (to risk-weighted assets)									
Consolidated	92,233	12.55	%	29,388	4.00	%	N/A	N/A	
Bank	83,377	11.38	%	29,300	4.00	%	43,950	6.00	%
Tier 1 capital (to average assets)									
Consolidated	92,233	9.87	%	37,381	4.00	%	N/A	N/A	
Bank	83,377	8.94	%	37,303	4.00	%	46,629	5.00	%

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

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

As of January 1, 2015, the minimum capital ratios are: 4.5% CET1 to risk-weighted assets, 6.0% Tier 1 capital to risk-weighted assets, 8.0% Total capital (Tier 1 plus Tier 2) to risk-weighted assets and 4.0% leverage ratio.

In addition, a capital conservation buffer of 2.5% above each of these levels will be required for banking institutions like the Company and the Bank to avoid restrictions on their ability to make capital distributions, including dividends, and pay certain discretionary bonus payments to executive officers. The capital conservation buffer will be phased in over a three year period, beginning at 0.625% in 2016 and increasing by that amount each subsequent year on January 1.

The Basel III Capital Rules provide for multiple new deductions from and adjustments to CET1. These include, for example, the requirement that deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one category exceeds 10% of total CET1 or all such categories in the aggregate exceed 15% of CET1. Implementation of these adjustments will begin on January 1, 2015, and will be phased in over the following three years.

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

The Company believes that, as of December 31, 2014, the Company and the Bank would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis if such requirements were then effective.

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

Due to its Internet-driven model and nationwide consumer banking platform, the Bank has opted to operate under a CRA Strategic Plan, which was submitted and approved by the FDIC and sets forth certain guidelines the Bank must meet in order to achieve a "Satisfactory" or "Outstanding" rating. The current Strategic Plan expired December 31, 2014 and the Bank has submitted a new plan for approval that will be in effect through December 31, 2017. The Bank received a "Satisfactory" CRA rating in its most recent CRA examination. Failure of an institution to receive at least a "Satisfactory" rating could inhibit such institution or its holding company from engaging in certain activities or pursuing acquisitions of other financial institutions.

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

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

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

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

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

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

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

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

The FDIA, as amended by the Federal Deposit Insurance Reform Act and the Dodd-Frank Act, requires the FDIC to set a ratio of deposit insurance reserves to estimated insured deposits—the designated reserve ratio (the “DRR”)—of at least 1.35%. The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank’s capital level and supervisory rating. On February 27, 2009, the FDIC introduced three possible adjustments to an institution’s initial base assessment rate: (1) a decrease of up to five basis points for long-term unsecured debt, including senior unsecured debt (other than debt guaranteed under the Temporary Liquidity Guarantee Program) and subordinated debt and, for small institutions, a portion of Tier 1 capital; (2) an increase not to exceed 50 percent of an institution’s assessment rate before the increase for secured liabilities in excess of 25 percent of domestic deposits; and (3) for non-Risk Category I institutions, an increase not to exceed 10 basis points for brokered deposits in excess of 10 percent of domestic deposits.

On November 9, 2010, the FDIC proposed to change its assessment base from total domestic deposits to average total assets minus average tangible equity, which is defined as Tier 1 capital, as required in the Dodd-Frank Act. The new assessment formula became effective on April 1, 2011, and was used to calculate the June 30, 2011 assessment. The FDIC plans to raise the same expected revenue under the new base as under the current assessment base. Since the new base is larger than the current base, the proposal would lower the assessment rate schedule to maintain revenue neutrality. Assessment rates would be reduced to a range of 2.5 to 9 basis points on the broader assessment base for banks in the lowest risk category (well capitalized and CAMELS I or II) and up to 30 to 45 basis points for banks in the highest risk category.

FDIC insurance expense, including assessments relating to Financing Corporation (FICO) bonds, totaled $0.6 million for 2014.

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

Liquidity. The Bank is required to maintain a sufficient amount of liquid assets to ensure its safe and sound operation. To fund its operations, the Bank historically has relied upon core deposits, fed funds lines with correspondent banks, Federal Home Loan Bank of Indianapolis (“FHLB”) borrowings and brokered deposits. The Bank does not currently solicit brokered deposits. The Bank believes it has sufficient liquidity to meet its funding obligations.

Federal Home Loan Bank System. The Bank is a member of the FHLB, which is one of the regional Federal Home Loan Banks comprising the Federal Home Loan Bank System. Each Federal Home Loan Bank serves as a central credit facility primarily for its member institutions. The Bank, as a member of the FHLB, is required to acquire and hold shares of FHLB capital stock. While the required percentage of stock ownership is subject to change by the FHLB, the Bank is in compliance with this requirement with an investment in FHLB stock at December 31, 2014 of $5.4 million. Any advances from the FHLB must be secured by specified types of collateral, and long-term advances may be used for the purpose of providing funds to make residential mortgage or commercial loans and to purchase investments. Long term advances may also be used to help alleviate interest rate risk for asset and liability management purposes. The Bank receives dividends on its FHLB stock.

Federal Reserve System. Although the Bank is not a member of the Federal Reserve System, it is subject to provisions of the Federal Reserve Act and the Federal Reserve's regulations under which depository institutions may be required to maintain reserves against their deposit accounts and certain other liabilities. In 2008, the Federal Reserve Banks began paying interest on reserve balances. Currently, reserves must be maintained against transaction accounts (primarily NOW and regular checking accounts). As of December 31, 2014, the Federal Reserve's regulations required reserves equal to 3% on transaction account balances over $13.3 million and up to $89.0 million, plus 10% on the excess over $89.0 million. These requirements are subject to adjustment annually by the Federal Reserve. The Bank is in compliance with the foregoing reserve requirements. The balances maintained to meet the reserve requirements imposed by the Federal Reserve may be used to satisfy liquidity requirements imposed by the FDIC.

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

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

Consumer Protection Laws. The Bank is subject to a number of federal and state laws designed to protect consumers and prohibit unfair or deceptive business practices. These laws include the Equal Credit Opportunity Act, Fair Housing Act, Home Ownership Protection Act, Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act of 2003 (the "FACT Act"), the Gramm-Leach-Bliley Act (the "GLBA"), the Truth in Lending Act, the CRA, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the National Flood Insurance Act and various state law counterparts. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must interact with customers when taking deposits, making loans, collecting loans and providing other services. Further, the Dodd-Frank Act established the CFPB, which has the responsibility for making and amending rules and regulations under the federal consumer protection laws relating to financial products and services. The CFPB also has a broad mandate to prohibit unfair or deceptive acts and practices and is specifically empowered to require certain disclosures to consumers and draft model disclosure forms. Failure to comply with consumer protection laws and regulations can subject financial institutions to enforcement actions, fines and other penalties. The FDIC will enforce CFPB rules with respect to the Bank.

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

Customer Information Security. The federal banking agencies have adopted final guidelines for establishing standards for safeguarding nonpublic personal information about customers. These guidelines implement provisions of the GLBA.

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

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

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

Employees

At December 31, 2014, we had 143 full-time equivalent employees. None of our employees are currently represented by a union or covered by a collective bargaining agreement. Management believes that its employee relations are satisfactory.

Corporate Information

We were 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. Our principal executive offices are located at 8888 Keystone Crossing, Suite 1700, Indianapolis, Indiana 46240, and our telephone number is (317) 532-7900.

Available Information

Our Internet address is www.firstinternetbancorp.com. We post important information for investors on our website in the “Investor Relations” section and use this website as a means for complying with our disclosure obligations under

Regulation FD. Accordingly, investors should monitor the Investor Relations section of our website, in addition to following our press releases, SEC filings, public conference calls, presentations and webcasts. Investors can easily find or navigate to pertinent information about us, free of charge, on our website, including:

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

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

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

- corporate governance information, including our Corporate Governance Principles, Code of Business Conduct and Ethics, information concerning our Board of Directors and its committees, including the charters of the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee, and other governance-related policies;
- shareholder services information, including ways to contact our transfer agent; and
- opportunities to sign up for email alerts and RSS feeds to have information provided in real time.

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

Item 1A. Risk Factors

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

RISKS RELATED TO OUR BUSINESS

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

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

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

We are growing our CRE and C&I loan portfolios. These loans generally involve higher credit risks than residential real estate and consumer loans and are dependent upon our lenders maintaining close relationships with the borrowers. Payments on these loans are often dependent upon the successful operation and management of the underlying business or assets, and repayment of such loans may be influenced to a great extent by conditions in the market or the economy. Commercial loans are generally larger than residential real estate or consumer loans and could lead to concentration risks within our commercial loan portfolio. Our failure to manage this growth could have a material adverse effect on our business, financial condition and results of operations.

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

As of December 31, 2014, we had a net unrealized loss of $0.2 million on the available for sale portion of our $137.5 million investment securities portfolio. In assessing the impairment of investment securities, we consider the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuers, whether the market decline was affected by macroeconomic conditions and whether we have the intent to sell the security or will be required to sell the security before its anticipated recovery. We also use economic models to assist in the valuation of some of our investment securities. If our investment securities experience a decline in value, we would need to determine whether the decline represented an other-than-temporary impairment ("OTTI"), in which case we would be required to record a write-down of the investment and a corresponding charge to our earnings.

Because our business is highly dependent on technology that is subject to rapid change and transformation, we are subject to risks of obsolescence.
The Bank conducts its consumer lending and deposit gathering activities through the Internet. The financial services industry is undergoing rapid technological change, and we face constant evolution of customer demand for technology-driven financial and banking products and services. Many of our competitors have substantially greater resources to invest in technological improvement and product development, marketing and implementation. Any failure to successfully keep pace with and fund technological innovation in the markets in which we compete could have a material adverse effect on our business, financial condition and results of operations.
We may need additional capital resources in the future and these capital resources may not be available when needed or at all, without which our financial condition, results of operations and prospects could be materially impaired.
If we continue to experience significant growth, we may need to raise additional capital. Our ability to raise capital, if needed, will depend upon our financial performance and on conditions in the capital markets, as well as economic conditions generally. Accordingly, such financing may not be available to us on acceptable terms or at all. If we cannot raise additional capital when needed, it would have a material adverse effect on our business, financial condition and results of operations.
The competitive nature of the banking and financial services industry could negatively affect our ability to increase our market share and retain long term profitability.
Competition in the banking and financial services industry is strong. We compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies and brokerage and investment banking firms operating locally and nationwide. Some of our competitors have greater name recognition and market presence than we do and offer certain services that we do not or cannot provide. In addition, larger competitors may be able to price loans and deposits more aggressively than we do, which could affect our ability to increase our market share and remain profitable on a long term basis. Our success will depend on the ability of the Bank to compete successfully on a long term basis within the financial services industry.
We rely on our management team and could be adversely affected by the unexpected loss of key officers.
Our future success and profitability is substantially dependent upon our management and the abilities of our senior executives. We believe that our future results will also depend in part upon our ability to attract and retain highly skilled and qualified management. Competition for senior personnel is intense, and we may not be successful in attracting and retaining such personnel. Changes in key personnel and their responsibilities may be disruptive to our businesses and could have a material adverse effect on our businesses, financial condition and results of operations. In particular, the loss of our chief executive officer could have a material adverse effect on our business, financial condition and results of operations.
Fluctuations in interest rates could reduce our profitability and affect the value of our assets.
Like other financial institutions, we are subject to interest rate risk. Our primary source of income is net interest income, which is the difference between interest earned on loans and investments and interest paid on deposits and borrowings. We expect that we will periodically experience imbalances in the interest rate sensitivities of our assets and liabilities and the relationships of various interest rates to each other. Over any defined period of time, our interest-earning assets may be more sensitive to changes in market interest rates than our interest-bearing liabilities, or vice-versa. In addition, the individual market interest rates underlying our loan and deposit products may not change to the same degree over a given time period. In any event, if market interest rates should move contrary to our position, earnings may be negatively affected. In addition, loan volume and quality and deposit volume and mix can be affected by market interest rates as can the businesses of our clients. Changes in levels of market interest rates could have a material adverse effect on our net interest spread, asset quality, loan origination volume, deposit gathering efforts and overall profitability.
Market interest rates are beyond our control, and they fluctuate in response to economic conditions and the policies of various governmental and regulatory agencies, in particular, the Board of Governors of the Federal Reserve (the “Federal Reserve”). Changes in monetary policy, including changes in interest rates, may negatively affect our ability to originate loans and leases, the value of our assets and our ability to realize gains from the sale of our assets, all of which ultimately could affect our earnings.

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

Our success depends to a significant extent upon the quality of our assets, particularly the credit quality of our loans. In originating loans, there is a substantial likelihood that credit losses will be experienced. The risk of loss will vary with, among other things, general economic conditions, the type of loan being made, the creditworthiness of the borrower over the term of the loan and, in the case of a collateralized loan, the quality of the collateral. Although we and our regulators regularly review our loan portfolio and evaluate the adequacy of our allowance, and believe that the allowance is adequate to absorb any inherent losses in our portfolio, there can be no assurance that we will not experience losses in excess of the allowance and be required to increase our provision for loan losses.

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

At December 31, 2014, our consumer loans totaled $97.1 million, representing approximately 13.3% of our total loan portfolio at such date. The overwhelming majority of our consumer loans are horse trailer and recreational vehicle loans acquired through indirect dealer networks. Consumer loans generally have a greater risk of loss or default than do residential mortgage loans, particularly in the case of loans that are secured by rapidly depreciating assets such as horse trailer and recreational vehicles. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower’s continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans. It may become necessary to increase our provision for loan losses in the event that our losses on these loans increase.

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

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

Lack of seasoning of our commercial loan portfolios may increase the risk of credit defaults in the future.

Due to our increasing emphasis on CRE and C&I lending, a substantial amount of the loans in our commercial loan portfolios and our lending relationships are of relatively recent origin. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process referred to as “seasoning.” A portfolio of older loans will usually behave more predictably than a newer portfolio. As a result, because a large portion of our commercial loan portfolio is relatively new, the current level of delinquencies and defaults may not be representative of the level that will prevail when the portfolio becomes more seasoned, which may be higher than current levels. If delinquencies and defaults increase, we may be required to increase our provision for loan losses.

A sustained decline in the mortgage loan markets or the related real estate markets could reduce loan origination activity or increase delinquencies, defaults and foreclosures, which could adversely affect our financial results.

Historically, our mortgage loan business has provided a significant portion of our revenue and our ability to maintain or grow that revenue is dependent upon our ability to originate loans and sell them on the secondary market. During the year ended December 31, 2014, income from mortgage banking activities was $5.6 million, compared to $8.7 million for the year ended December 31, 2013. Mortgage loan originations are sensitive to changes in economic conditions, including decreased economic activity, a slowdown in the housing market, and higher market interest rates, and has historically been cyclical, enjoying periods of strong growth and profitability followed by periods of lower volumes and market-wide losses. During periods of rising interest rates, refinancing originations for many mortgage products tend to decrease as the economic incentives for borrowers to refinance their existing mortgage loans are reduced. In addition, the mortgage loan origination business is affected by changes in real property values. A reduction in real property values could also negatively affect our ability to originate mortgage loans because the value of the real properties underlying the loans is a primary source of repayment in the event of foreclosure. The national market for residential mortgage loan refinancing has recently declined and a continuation of that trend may adversely impact our business. Any sustained period of increased delinquencies, foreclosures or losses could harm our ability to originate and sell mortgage loans, and the price received on the sale of such loans, which could have a material adverse effect on our business, financial condition and results of operations.

Reputational risk and social factors may negatively affect us.

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

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

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

We depend upon our ability to process, record and monitor our client transactions on a continuous basis. As client, public and regulatory expectations regarding operational and information security have increased, our operational systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions and breakdowns. Our business, financial, accounting and data processing systems, or other operating systems and facilities, may stop operating properly or become disabled or damaged as a result of a number of factors, including events that are wholly or partially beyond our control. For example, there could be electrical or telecommunications outages; natural disasters such as earthquakes, tornadoes and hurricanes; disease pandemics; events arising from local or larger scale political or social matters, including terrorist acts; and, as described below, cyber-attacks. Although we have business continuity plans and other safeguards in place, our business operations may be adversely affected by significant and widespread disruption to our physical infrastructure or operating systems that support our business and clients.

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

Third parties with whom we do business or that facilitate our business activities, including financial intermediaries or vendors that provide services or security solutions for our operations, could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints.

Although to date we have not experienced any material losses relating to cyber-attacks or other information security breaches, there can be no assurance that we will not suffer such losses in the future. Our risk and exposure to these matters remains heightened because of the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a focus for us. As threats continue to evolve, we may be required to expend additional resources to continue to modify or enhance our protective measures or to investigate and remediate information security vulnerabilities.

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

RISKS RELATING TO THE REGULATION OF OUR INDUSTRY

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

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

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

The Federal Reserve, the FDIC and the DFI periodically examine our business, including our compliance with laws and regulations. If, as a result of an examination, a federal or state banking agency were to determine that our financial condition, capital resource, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil monetary penalties against our officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place us into receivership or conservatorship. Any regulatory action against us could have a material adverse effect on our business, financial condition and results of operations.

Our FDIC deposit insurance premiums and assessments may increase which would reduce our profitability.

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

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

In July 2013, the federal banking agencies approved rules that will significantly change the regulatory capital requirements of all banking institutions in the United States. The new rules are designed to implement the recommendations with respect to regulatory capital standards, commonly known as Basel III, approved by the International Basel Committee on Bank Supervision. We will become subject to the new rules over a multi-year transition period commencing January 1, 2015. The new rules establish a new regulatory capital standard based on tier 1 common equity and increase the minimum leverage and risk-based capital ratios. The rules also change how a number of the regulatory capital components are calculated. The new rules will generally require us and the Bank to maintain greater amounts of regulatory capital. A significant increase in our capital requirements could have a material adverse effect on our business and results of operations.

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

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

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

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

RISKS RELATED TO OUR COMMON STOCK

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

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

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

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

Anti-takeover provisions could negatively impact our shareholders.

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

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

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

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

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

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

During 2013, we issued a $3.0 million subordinated debenture to a third party. The purchase agreement under which the subordinated debenture was issued prohibits us from paying any dividends on our common stock or making any other distributions to our shareholders at any time when there shall have occurred and be continuing an event of default under the agreement.

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal office is located at 8888 Keystone Crossing, Suite 1700, Indianapolis, Indiana 46240.

The Company owns an office building with approximately 52,000 square feet of office space and related real estate located in Fishers, Indiana. The Company intends to use the property for the current and future operations of the Bank.

The Bank is currently leasing approximately 15,250 square feet of office space at the Fishers property. The lease has an initial term of five years and provides for monthly rent in the amount of $18.50 per square foot. The Company expects that the Bank will increase its use of the leased property over time. The Company believes that the leased principal office space and the Fishers property will be adequate to meet the Bank’s current and near-term needs.

The Company borrowed $4.0 million from the Bank for the purchase of the Fishers property. The scheduled maturity date of the loan is March 6, 2015. Effective March 6, 2015, we entered into an Acknowledgment, Confirmation and Amendment that, among other things, extended the maturity until March 6, 2016. The loan bears interest during the term at a variable rate equal to the then applicable prime rate (as determined by the Bank with reference to the "Prime Rate" published in The Wall Street Journal) plus 1.00% per annum. The loan agreement contains customary affirmative covenants and events of default. The loan agreement provides that the loan is to be secured by a first priority mortgage and lien on the acquired property and requires that the Company maintain collateral securing the loan that has a value of not less than $5.2 million during the term of the loan.

On March 5, 2013 the Bank entered into a sublease for 5,670 square feet of furnished office space in Tempe, Arizona and intends to use the space primarily to house administrative operations. The term of the lease is 37 months.

Item 3. 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 4. Mine Safety Disclosures

None.

PART II

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

Market Information

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

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

Period	High (US$)	Low (US$)	Declared Dividends
Year Ended December 31, 2013:			
First Quarter	$19.77	$13.67	$0.04
Second Quarter	21.88	14.43	0.06
Third Quarter	36.00	20.99	0.06
Fourth Quarter	31.82	20.12	0.06
Year Ended December 31, 2014:			
First Quarter	26.10	19.66	0.06
Second Quarter	24.00	19.38	0.06
Third Quarter	22.00	15.54	0.06
Fourth Quarter	19.00	15.10	0.06

As of March 6, 2015, we had 4,486,563 shares of common stock issued and outstanding, and there were 153 holders of record of our common stock.

Dividends

The Company began paying regular quarterly dividends in 2013. Total dividends declared in 2014 were $0.24 per share. The Company expects to continue to pay cash dividends on a quarterly basis; however, the declaration and amount of any future cash dividends will be subject to the sole discretion of our Board of Directors and will depend upon many factors, including our financial condition, earnings, capital requirements of our operating subsidiaries, legal requirements, regulatory constraints and other factors deemed relevant by our Board of Directors.

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

Recent Sales of Unregistered Securities

None.

Item 6. Selected Financial Data

Five Year Selected Financial and Other Data

(dollars in thousands)	At or for the Twelve Months Ended December 31,				
	2014	2013	2012	2011	2010
Balance Sheet Data:					
Total assets	$970,503	$802,342	$636,367	$585,440	$503,915
Cash and cash equivalents	28,289	53,690	32,513	34,778	32,417
Loans receivable	732,426	501,153	358,161	335,226	306,390
Loans held-for-sale	34,671	28,610	63,234	45,091	5,008
Securities available for sale	137,518	181,409	156,693	149,270	136,936
Deposits	758,598	673,095	530,691	486,665	422,703
Tangible common equity (1)	92,098	86,221	56,663	50,736	44,210
Total shareholders' equity	96,785	90,908	61,350	55,423	48,897
Income Statement Data:					
Interest and dividend income	$31,215	$25,536	$24,374	$23,944	$25,296
Interest expense	8,928	8,088	8,532	9,621	10,785
Net interest income	22,287	17,448	15,842	14,323	14,511
Provision for loan losses	349	324	2,852	2,440	927
Net interest income after provision for loan losses	21,938	17,124	12,990	11,883	13,584
Noninterest income	7,174	9,517	11,423	3,559	3,437
Noninterest expense	22,662	20,482	16,613	11,483	10,370
Income before income taxes	6,450	6,159	7,800	3,959	6,651
Income tax provision	2,126	1,566	2,194	773	1,696
Net income	$4,324	$4,593	$5,606	$3,186	$4,955
Per Share Data:					
Net income					
Basic	$0.96	$1.51	$1.95	$1.11	$1.74
Diluted	$0.96	$1.51	$1.95	$1.11	$1.74
Tangible book value per common share (1)	$20.74	$19.38	$20.13	$18.07	$15.75
Weighted average common shares outstanding					
Basic	4,497,007	3,041,666	2,869,365	2,859,434	2,848,379
Diluted	4,507,995	3,050,001	2,869,365	2,859,434	2,848,379
Common shares outstanding at end of period	4,439,575	4,448,326	2,815,094	2,807,385	2,807,385
Dividends declared per share	$0.24	$0.22	$0.17	$—	$—
Dividend payout ratio (2)	25.00 %	14.57 %	8.53 %	— %	— %

	At or for the Twelve Months Ended December 31,				
	2014	2013	2012	2011	2010
Performance Ratios:					
Return on average assets	0.50 %	0.67 %	0.91 %	0.59 %	1.01 %
Return on average equity	4.61 %	7.10 %	9.51 %	6.09 %	10.10 %
Net interest margin (3)	2.65 %	2.67 %	2.67 %	2.75 %	3.06 %
Noninterest income to average assets	0.82 %	1.39 %	1.86 %	0.66 %	0.70 %
Noninterest expense to average assets	2.60 %	2.99 %	2.70 %	2.12 %	2.11 %
Efficiency ratio (4)	76.92 %	75.96 %	60.93 %	64.22 %	57.78 %
Asset Quality Ratios:					
Nonperforming loans to total loans	0.04 %	0.37 %	1.23 %	2.64 %	3.17 %
Nonperforming assets to total assets	0.50 %	0.90 %	1.62 %	2.29 %	3.36 %
Nonperforming assets (including troubled debt restructurings) to total assets	0.62 %	1.05 %	1.84 %	2.47 %	3.43 %
Allowance for loan losses to total loans receivable	0.79 %	1.09 %	1.65 %	1.70 %	2.26 %
Net charge-offs to average loans outstanding during period	0.00 %	0.17 %	0.69 %	1.05 %	1.35 %
Allowance for loan losses to nonperforming loans	1,959.5 %	293.0 %	133.3 %	64.6 %	71.4 %
Capital Ratios:					
Tangible common equity to tangible assets (1)	9.54 %	10.81 %	8.97 %	8.74 %	8.86 %
Total capital to risk weighted assets (5)	13.75 %	17.09 %	13.46 %	12.40 %	12.16 %
Tier 1 capital to risk weighted assets (5)	12.55 %	15.61 %	12.20 %	11.15 %	10.91 %
Tier 1 capital to average assets (5)	9.87 %	11.66 %	8.89 %	8.74 %	9.41 %
Other Data:					
Full-time equivalent employees	143	130	97	74	52
Number of banking and loan production offices	4	4	1	1	1

Refer to Note 1 to the Company’s consolidated financial statements regarding reclassifications of prior period financial information.

(1) Tangible common equity, tangible assets and tangible book value per common share are financial measures not recognized by generally accepted accounting principles (“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)	December 31,				
	2014	2013	2012	2011	2010
Total equity - GAAP	$96,785	$90,908	$61,350	$55,423	$48,897
Less: goodwill	(4,687)	(4,687)	(4,687)	(4,687)	(4,687)
Tangible common equity	$92,098	$86,221	$56,663	$50,736	$44,210
Total assets - GAAP	$970,503	$802,342	$636,367	$585,440	$503,915
Less: goodwill	(4,687)	(4,687)	(4,687)	(4,687)	(4,687)
Tangible assets	$965,816	$797,655	$631,680	$580,753	$499,228
Total common shares outstanding	4,439,575	4,448,326	2,815,094	2,807,385	2,807,385
Book value per common share	$21.80	$20.44	$21.79	$19.74	$17.42
Effect of goodwill	(1.06)	(1.06)	(1.66)	(1.67)	(1.67)
Tangible book value per common share	$20.74	$19.38	$20.13	$18.07	$15.75
Total shareholders' equity to assets ratio	9.97%	11.33%	9.64%	9.47%	9.70%
Effect of goodwill	(0.43)%	(0.52)%	(0.67)%	(0.73)%	(0.84)%
Tangible common equity to tangible assets ratio	9.54%	10.81%	8.97%	8.74%	8.86%

(2) Dividends per share divided by diluted earnings per share.

(3) Net interest margin is net interest income divided by average earning assets.

(4) Efficiency ratio is noninterest expense divided by the sum of net interest income and noninterest income.

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

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated 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 this report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by such forward-looking statements. See "Cautionary Note Regarding Forward-Looking Statements" at the beginning of this report.

Overview

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

To meet the needs of high quality, commercial borrowers and depositors, we offer commercial real estate ("CRE") lending, including nationwide single tenant lease financing, commercial and industrial ("C&I") lending, including asset based lending, and business banking/treasury management services. Our commercial banking activities are highly dependent on establishing and maintaining strong relationships with our business customers.

To support our positive momentum and enable continued growth, the Company completed a public offering of common stock during the 2013 fourth quarter, which provided $29.1 million of new capital.

Financial Condition

Comparison of December 31, 2014 to December 31, 2013

- Total assets were $970.5 million at December 31, 2014, compared to $802.3 million at December 31, 2013, representing an increase of $168.2 million, or 21.0%.

- In 2014, the Company continued to experience strong growth in its commercial and residential real estate loan portfolios. Loans receivable increased $231.3 million, or 46.1%, in 2014, compared to December 31, 2013. CRE loans, which include owner occupied CRE loans, increased $131.4 million, or 92.3%, from the prior year end. Single tenant lease financing, a component of CRE, experienced the largest growth in the commercial loan portfolio as balances increased $108.4 million, or 128.8%, from December 31, 2013. There was also solid growth in the C&I loan portfolio during 2014 as balances increased $22.1 million, or 40.0%, from December 31, 2013. Residential real estate loans, which increased $88.0 million, or 46.1%, from December 31, 2013, further contributed to the increase in loan balances. The increase in residential real estate loans was primarily due to the Company deploying excess balance sheet capacity to acquire $104.9 million of high quality, adjustable rate residential mortgage assets during the year to complement its organic loan growth.

- Total nonperforming loans at December 31, 2014 declined $1.6 million, or 84.0%, from December 31, 2013, reflecting the resolution of a nonaccrual CRE credit that experienced significant charge-offs in prior periods. The allowance for loan losses was 0.79% of total loans at December 31, 2014, versus 1.09% at December 31, 2013. The ratio of nonperforming loans to total loans declined to 0.04% at December 31, 2014, compared to 0.37% at December 31, 2013, and the allowance for loan losses to total nonperforming loans increased to 1,959.5% at December 31, 2014, versus 293.0% at December 31, 2013.

- Securities available for sale decreased from $181.4 million at December 31, 2013 to $137.5 million at December 31, 2014, a decline of $43.9 million, or 24.2%. The decrease was primarily due to the Company restructuring its securities portfolio in 2014, which included the liquidation of the entire portfolio of odd lot and long duration municipal securities, which had a fair value of $46.3 million at December 31, 2013.

- Total deposits increased $85.5 million, or 12.7%, to $758.6 million at December 31, 2014, compared with $673.1 million at December 31, 2013. A significant portion of the growth related to certificates of deposit, which increased $68.5 million, or 23.4%, from December 31, 2013.

- Advances from the Federal Home Loan Bank ("FHLB") increased $75.1 million, or 236.2%, from $31.8 million at December 31, 2013 to $106.9 million at December 31, 2014 as management elected to increase the utilization of FHLB advances in 2014 to reduce the Company's overall funding costs.

- Tangible common equity increased $5.9 million, or 6.82%, from $86.2 million at December 31, 2013 to $92.1 million at December 31, 2014. The increase was due to net income of $4.3 million, other comprehensive income of $2.2 million, and stock compensation expense of $0.5 million, less dividends declared of $1.1 million.

Results of Operations

Twelve Months Ended December 31, 2014 vs. Fiscal Year Ended December 31, 2013

- Net income decreased $0.3 million, or 5.9%, to $4.3 million for the year ended December 31, 2014, compared to $4.6 million for the 2013 period. Diluted earnings per share decreased $0.55, or 36.4%, from $1.51 in 2013 to $0.96 in 2014. The 1.5 million, or 47.8%, year-over-year increase in diluted average common shares outstanding negatively impacted the Company's earnings per share ratio.

- Total interest income increased $5.7 million, or 22.2%, to $31.2 million for the 2014 period, compared to $25.5 million in the prior year period. Interest income from loans accounted for $7.0 million of the increase, which was partially offset by a $1.6 million decrease in interest income from tax-exempt municipal securities. The increase in interest income from loans was due to a $195.9 million, or 45.0%, increase in average loan balances, partially offset by a 37 basis point decrease in the yield earned on the loan portfolio. Interest income from tax-exempt municipal securities decreased from the prior year period due primarily to the 2014 restructuring of the investment portfolio.

- Total interest expense increased $0.8 million, or 10.4%, from $8.1 million in 2013 to $8.9 million in 2014. The increase in interest expense was primarily due to a $141.2 million, or 24.9%, increase in average interest-bearing deposit balances, which was partially offset by a 13 basis point decline in the cost of interest-bearing deposits. Although the Company's average other borrowings increased $14.0 million, or 44.3%, from the prior year period, the cost of those borrowing decreased 109 basis points, thus having minimal impact on 2014 interest expense in comparison to the prior year.

- Net interest income for the year ended December 31, 2014 was $22.3 million, compared to $17.5 million for the prior year, an increase of $4.8 million, or 27.7%. Net interest margin decreased 2 basis points to 2.65% for the 2014 period, compared to 2.67% for the prior year period.

- Noninterest income was $7.2 million for the year ended December 31, 2014, compared with $9.5 million for the year ended December 31, 2013, a decrease of $2.3 million, or 24.6%. Most of the decrease was attributable to income from mortgage banking activities, which decreased $3.1 million, or 35.4%, from $8.7 million in the prior year period to $5.6 million in 2014. The decrease in mortgage banking income was primarily due to a decrease in the volume of loans sold, which was partially offset by an increase in the gain on sale margin. The volume of mortgage loans sold declined $374.6 million, or 47.8%, from $784.1 million during the year ended December 31, 2013 to $409.5 million during the 2014 period. The decline in income from mortgage banking activities was partially offset by a $0.6 million increase in gains recorded on the sales of investment securities during 2014.

- Noninterest expenses increased $2.2 million, or 10.6%, to $22.7 million for the year ended December 31, 2014, compared to $20.5 million for the prior year period. The most significant increase was in salaries and employee benefits which increased $2.1 million, or 20.5%, from the prior year period, primarily due to increased headcount.

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The income tax provision for the year ended December 31, 2014 was $2.1 million, resulting in an effective tax rate of 33.0%, compared to an income tax provision of $1.6 million and an effective tax rate of 25.4% in the prior year period. The increase in the Company’s effective tax rate was due primarily to the restructuring of the investment portfolio earlier in 2014 during which the Company liquidated its entire portfolio of odd lot and long duration municipal securities.

- Noninterest income as a percentage of average assets decreased from 1.39% for the year ended December 31, 2013 to 0.82% for the 2014 period. The decrease was primarily caused by a decrease in noninterest income and an increase in average assets.

- Noninterest expense to average assets decreased from 2.99% for the year ended December 31, 2013 to 2.60% for the 2014 period as asset growth outpaced noninterest expense growth.

- Return on average assets for the year ended December 31, 2014 was 0.50%, versus 0.67% for the prior year, driven primarily by the 27.4% increase in average assets and, to a lesser extent, the decrease in net income.

- Return on average shareholders' equity for the year ended December 31, 2014 was 4.61%, compared to 7.10% for the prior year, which reflects the decrease in net income and the additional $29.1 million of new capital issued in late 2013.

Average Balance Sheets and Net Interest Income Analysis

For the periods presented, the following table provides the total dollar amount of interest income from average interest-earning assets and the resulting yields, and the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, and the net interest margin. The table does 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

	Twelve Months Ended December 31,					
(dollars in thousands)	2014			2013		
	Average Balance	Interest and Dividends	Yield/Cost	Average Balance	Interest and Dividends	Yield/Cost
Assets:						
Interest-earning assets:						
Loans	$631,743	$27,875	4.41 %	$435,799	$20,843	4.78 %
Securities - taxable	151,967	3,036	2.00 %	137,230	2,891	2.11 %
Securities - non-taxable	1,785	58	3.25 %	43,620	1,611	3.69 %
Other interest-earning assets	56,094	246	0.44 %	37,785	191	0.51 %
Total interest-earning assets	841,589	31,215	3.71 %	654,434	25,536	3.90 %
Allowance for loan losses	(5,414)			(5,573)		
Noninterest-earning assets	36,128			35,719		
Total assets	$872,303			$684,580		
Liabilities and equity:						
Interest-bearing liabilities						
Regular savings accounts	$18,509	$109	0.59 %	$13,806	$81	0.59 %
Interest-bearing demand deposits	70,362	386	0.55 %	68,366	376	0.55 %
Money market accounts	269,271	1,965	0.73 %	224,383	1,666	0.74 %
Certificates and brokered deposits	350,129	5,193	1.48 %	260,549	4,738	1.82 %
Total interest-bearing deposits	708,271	7,653	1.08 %	567,104	6,861	1.21 %
Other borrowings	45,425	1,275	2.81 %	31,471	1,227	3.90 %
Total interest-bearing liabilities	753,696	8,928	1.18 %	598,575	8,088	1.35 %
Noninterest-bearing liabilities	20,028			13,605		
Other non-interest bearing liabilities	4,783			7,696		
Total liabilities	778,507			619,876		
Shareholders' Equity	93,796			64,704		
Total liabilities and equity	$872,303			$684,580		

Net interest income	$ 22,287		$ 17,448	
Net interest rate spread	2.53	%	2.55	%
Net interest margin	2.65	%	2.67	%
Average interest-earning assets to average interest-bearing liabilities	111.7	%	109.3	%

Rate/Volume Analysis

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

(dollars in thousands)	Rate/Volume Analysis of Net Interest Income Twelve Months Ended December 31,					
	2014 vs. 2013			2013 vs. 2012		
	Due to Changes in			Due to Changes in		
	Volume	Rate	Net	Volume	Rate	Net
Interest income						
Loans receivable	$8,750	$(1,718)	$7,032	$2,212	$(929)	$1,283
Securities - taxable	301	(156)	145	167	(240)	(73)
Securities - non-taxable	(1,381)	(172)	(1,553)	15	(85)	(70)
Other earning assets	84	(29)	55	38	(16)	22
Total	7,754	(2,075)	5,679	2,432	(1,270)	1,162
Interest expense						
Deposits	1,803	(1,011)	792	790	(1,101)	(311)
Other borrowings	450	(402)	48	(335)	202	(133)
Total	2,253	(1,413)	840	455	(899)	(444)
Increase (decrease) in net interest income	$5,501	$(662)	$4,839	$1,977	$(371)	$1,606

Liquidity and Capital Resources

Total shareholders' equity increased $5.9 million during 2014. The increase was attributable to net income of $4.3 million, other comprehensive income of $2.2 million, and stock compensation expense of $0.5 million, reduced by dividends declared of $1.1 million.

The Company's primary source of funds is dividends from the Bank, the declaration of which is subject to regulatory limits. The Company's primary use of cash is to pay regular quarterly dividends. Total dividends declared in 2014 were $0.24 per share.

The Company expects to continue to pay cash dividends on a quarterly basis; however, the declaration and amount of any future cash dividends will be subject to the sole discretion of our Board of Directors and will depend upon many factors, including our financial condition, earnings, capital requirements of our operating subsidiaries, legal requirements, regulatory constraints and other factors deemed relevant by our Board of Directors. At December 31, 2014, the Company, on an unconsolidated basis, had $10.1 million in cash generally available for its cash needs.

At December 31, 2014, we had $165.8 million in cash and investment securities available for sale and $34.7 million in loans held-for-sale that were generally available for our cash needs. At December 31, 2014, we had the ability to borrow an additional $160.1 million in FHLB advances and correspondent bank fed funds line of credit draws based upon the amount of collateral pledged to secure such borrowings.

At December 31, 2014, approved outstanding loan commitments, including unused lines of credit, amounted to $110.4 million. Certificates of deposit and brokered deposits scheduled to mature in one year or less at December 31, 2014, totaled $223.1 million; however, due to our competitive rates, we believe that a majority of maturing certificates of deposit will remain with the Bank.

At December 31, 2014, the Company and the Bank exceeded all applicable regulatory capital minimum requirements, and the Bank was considered “well-capitalized” under applicable regulations. We believe our capital resources are sufficient to meet our current and expected needs, including any cash dividends we may pay; however, if we continue to experience significant growth, we may require additional capital resources.

Investing Activities

Investment Securities Portfolio

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

Our management periodically evaluates each security available for sale in an unrealized loss position to determine if the impairment is temporary or other than temporary. As of December 31, 2014, the unrealized losses in our investment securities portfolio were due solely to interest rate changes. We have the ability and intent to hold all investment securities with identified impairments resulting from interest rate changes to the earlier of the forecasted recovery or the maturity of the underlying investment security. As of December 31, 2014, we did not have any investment securities of a single issuer, which were not governmental or government-sponsored, that exceeded 10% of shareholders' equity.

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

(dollars in thousands)	December 31,					
	2014		2013		2012	
	Amortized Cost	Approximate Fair Value	Amortized Cost	Approximate Fair Value	Amortized Cost	Approximate Fair Value
Securities available for sale:						
U.S. Government-sponsored agencies	$13,680	$ 13,552	$57,569	$ 56,277	$18,666	$ 19,618
Municipals	—	—	46,126	46,323	39,999	42,540
Mortgage-backed securities	117,134	117,048	76,371	75,173	78,478	79,942
Asset-backed securities	4,913	4,912	—	—	—	—
Other securities	2,000	2,006	5,025	3,636	16,753	14,593
Total securities available for sale	$137,727	$ 137,518	$185,091	$ 181,409	$153,896	$ 156,693

On December 10, 2013, five federal agencies (the Federal Reserve, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, Commodity Futures Trading Commission, and the Securities and Exchange Commission) published the final Volcker Rule pursuant to the Dodd-Frank Act. The Volcker Rule restricts certain activities by covered bank holding companies, including private equity investing, proprietary trading, and restrictions on certain types of investments.

On January 14, 2014, the same five federal agencies revised the Volcker Rule's application to permit banking entities to retain interests in certain CDOs backed primarily by trust preferred securities from the investment prohibitions of section 619 of the Volcker Rule. Under the interim final rule, the agencies permit the retention of an interest in or sponsorship of covered funds by banking entities if certain criteria are met. In addition, the agencies released a non-exclusive list of issuers that meet the criteria of the interim final rule.

At December 31, 2013, the Company had investments in two different trust preferred CDOs. One of the Company’s CDOs was included in the list of non-exclusive issuers that are not subject to the Volcker Rule. The Company sold both of these CDOs in 2014. Refer to Note 3 to the Company's consolidated financial statements for further information.

Investment Maturities

The following table summarizes the maturity schedule of our investment securities at their amortized cost and their weighted average yields at December 31, 2014.

(dollars in thousands)	1 year or Less		More than 1 year to 5 years		More than 5 years to 10 years		More than 10 years		Total	
	Amortized Cost	Wtd. Avg. Yield	Amortized Cost	Wtd. Avg. Yield	Amortized Cost	Wtd. Avg. Yield	Amortized Cost	Wtd. Avg. Yield	Amortized Cost	Wtd. Avg. Yield
Securities available for sale:										
U.S. Government-sponsored agencies	—	— %	—	— %	811	5.20 %	12,869	2.32 %	13,680	2.52 %
Mortgage-backed securities	—	— %	—	— %	55,437	1.66 %	61,697	2.11 %	117,134	1.90 %
Asset-backed securities	—	— %	—	— %	—	— %	4,913	2.47 %	4,913	2.47 %
Total securities available for sale [(1)]	$—		$—		$56,248		$79,479		$135,727	

[(1)] A $2.0 million investment security has been excluded herein as the security does not have a maturity date.

Critical Accounting Policies and Estimates

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

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

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

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

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

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

Recent Accounting Pronouncements

Refer to Note 19 to the Company's consolidated financial statements.

Off-Balance Sheet Arrangements

In the ordinary course of business, the Company enters into financial transactions to extend credit and forms of commitments that may be considered off-balance sheet arrangements. We enter into forward contracts relating to our mortgage banking business to hedge the exposures we have from commitments to extend new residential mortgage loans to our customers and from our mortgage loans held-for-sale. At December 31, 2014 and December 31, 2013, we had commitments to sell residential real estate loans of $55.1 million and $30.6 million, respectively. These contracts mature in less than one year.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

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

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

The Company performed an evaluation under the supervision and with the participation of management, including the Company's principal executive officer and principal financial officer, to assess the effectiveness of the design and operation of our disclosure controls and procedures under the Exchange Act. Based on that evaluation, our management, including our principal executive officer and principal financial officer, concluded that our disclosure controls and procedures were effective as of December 31, 2014.

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

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company, including accounting and other internal control systems that, in the opinion of management, provide reasonable assurance that (1) transactions are properly authorized, (2) the assets are properly safeguarded, and (3) transactions are properly recorded and reported to permit the preparation of the Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States. The Company’s management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2014. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (1992). Based on that assessment, management believes that, as of December 31, 2014, the Company’s internal control over financial reporting is effective based on those criteria. The Company’s internal control over financial reporting as of December 31, 2014 has been audited by BKD LLP, an independent registered public accounting firm, as stated in their report appearing on page F-3.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company’s internal control over financial reporting during the quarter ended December 31, 2014, that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Certain information required by Part III is incorporated by reference from our definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 18, 2015 (the "Proxy Statement"), which we intend to file with the SEC pursuant to Regulation 14A within 120 days after December 31, 2014. Except for those portions specifically incorporated in this report by reference to our Proxy Statement, no other portions of the Proxy Statement are deemed to be filed as part of this report.

Item 10. Directors, Executive Officers and Corporate Governance

Directors

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

Executive Officers

Our executive officers are as follows:

Name	Age	Position
David B. Becker	61	Chairman, President, Chief Executive Officer and Director
Kenneth J. Lovik	45	Senior Vice President and Chief Financial Officer
C. Charles Perfetti	70	Senior Vice President and Secretary
Nicole S. Lorch	40	Senior Vice President, Retail Banking
Edward A. Roebuck	50	Senior Vice President and Chief Credit Officer

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

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

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

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

Edward A. Roebuck has served as Senior Vice President and Chief Credit Officer since August 2012. Mr. Roebuck previously served as Senior Asset Manager at PNC Bank from January 2009 to June 2012 and as Chief Credit Officer and Senior Underwriter at National City Bank from 1986 to December 2008.

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

Code of Business Conduct and Ethics

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

Audit Committee

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

Section 16(a) Beneficial Ownership Reporting Compliance

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

Corporate Governance

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

Item 11. Executive Compensation

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

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

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

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

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

Item 14. Principal Accountant Fees and Services

Incorporated into this item by reference is the information in the Proxy Statement under the heading “Audit-Related Matters.”

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

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

(b)Exhibits:

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

Exhibit No.	Description
3.1	Articles of Incorporation of First Internet Bancorp (incorporated by reference to Exhibit 3.1 to registration statement 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 annual report on Form 10-K for the year ended December 31, 2012)
4.1	Warrant to purchase common stock dated June 28, 2013 (incorporated by reference to Exhibit 4.1 to current report on Form 8-K filed July 5, 2013)
10.1	First Internet Bancorp 2013 Equity Incentive Plan (incorporated by reference to Appendix A to the definitive proxy statement on Schedule 14A filed April 9, 2013)
10.2	Form of Restricted Stock Agreement under 2013 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to current report on Form 8-K filed July 26, 2013)*
10.3	First Internet Bancorp Directors' Deferred Stock Plan (incorporated by reference to Exhibit 10.3 to registration statement on Form 10 filed November 30, 2012)*
10.4	Amended and Restated Employment Agreement among First Internet Bank of Indiana, First Internet Bancorp and David B. Becker dated March 28, 2013 (incorporated by reference to Exhibit 10.4 to annual report on Form 10-K for the year ended December 31, 2012)*
10.5	2014 Senior Management Bonus Plan (incorporated by reference to Exhibit 10.1 to quarterly report on Form 10-Q for the quarterly period ended March 31, 2014)*
10.6	Contract for Purchase of Property between First Internet Bancorp and LHRET Ascension SV, LLC dated January 30, 2013 (incorporated by reference to Exhibit 10.10 to annual report on Form 10-K for the year ended December 31, 2012)
10.7	Offer and Contract for Purchase of Real Estate between First Internet Bancorp and St. Vincent Hospital and Health Care Center, Inc., accepted February 5, 2013 (incorporated by reference to Exhibit 10.11 to annual report on Form 10-K for the year ended December 31, 2012)
10.8	Lease dated as of March 6, 2013, by and between First Internet Bancorp and First Internet Bank of Indiana (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed March 11, 2013)
10.9	Subordinated Debenture Purchase Agreement with Community BanCapital, L.P., dated June 28, 2013 (incorporated by reference to Exhibit 10.1 to current report on Form 8-K filed July 5, 2013)
10.10	Subordinated Debenture dated June 28, 2013 (incorporated by reference to Exhibit 10.2 to current report on Form 8-K filed July 5, 2013)
21.1	List of Subsidiaries (incorporated by reference to Exhibit 21.1 to registration statement on Form 10 filed November 30, 2012)
23.1	Consent of Independent Registered Public Accounting Firm
24.1	Powers of Attorney
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer

31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certifications

Exhibit No.	Description
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 13, 2015.

FIRST INTERNET BANCORP

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 13, 2015.

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

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

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

First Internet Bancorp
December 31, 2014 and 2013

Contents

Reports of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of First Internet Bancorp (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the years then ended. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Internet Bancorp as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), First Internet Bancorp's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 13, 2015, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ BKD, LLP

Indianapolis, Indiana
March 13, 2015

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

We have audited First Internet Bancorp's (the "Company") internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management's Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, First Internet Bancorp maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of First Internet Bancorp and our report dated March 13, 2015, expressed an unqualified opinion thereon.

/s/ BKD, LLP

Indianapolis, Indiana
March 13, 2015

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

	December 31, 2014	2013
Assets		
Cash and due from banks	$1,940	$2,578
Interest-bearing demand deposits	26,349	51,112
Total cash and cash equivalents	28,289	53,690
Interest-bearing time deposits	2,000	2,500
Securities available for sale - at fair value (amortized cost of $137,727 in 2014 and $185,091 in 2013)	137,518	181,409
Loans held-for-sale (includes $32,618 and $24,254 at fair value in 2014 and 2013, respectively)	34,671	28,610
Loans receivable	732,426	501,153
Allowance for loan losses	(5,800)	(5,426)
Net loans receivable	726,626	495,727
Accrued interest receivable	2,833	2,904
Federal Home Loan Bank of Indianapolis stock	5,350	2,943
Cash surrender value of bank-owned life insurance	12,325	11,935
Premises and equipment, net	7,061	7,134
Goodwill	4,687	4,687
Other real estate owned	4,488	4,381
Accrued income and other assets	4,655	6,422
Total assets	$970,503	$802,342
Liabilities and Shareholders' Equity		
Liabilities		
Noninterest-bearing deposits	$21,790	$19,386
Interest-bearing deposits	736,808	653,709
Total deposits	758,598	673,095
Advances from Federal Home Loan Bank	106,897	31,793
Subordinated debt	2,873	2,789
Accrued interest payable	97	102
Accrued expenses and other liabilities	5,253	3,655
Total liabilities	873,718	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; 4,439,575 and 4,448,326 shares issued and outstanding, respectively	71,774	71,378
Nonvoting common stock, no par value; 86,221 shares authorized; issued and outstanding - none	—	—
Retained earnings	25,146	21,902
Accumulated other comprehensive loss	(135)	(2,372)
Total shareholders' equity	96,785	90,908
Total liabilities and shareholders' equity	$970,503	$802,342

See Notes to Consolidated Financial Statements

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

	Year Ended December 31,	
	2014	2013
Interest Income		
Loans	$27,875	$20,843
Securities – taxable	3,036	2,891
Securities – non-taxable	58	1,611
Other earning assets	246	191
Total interest income	31,215	25,536
Interest Expense		
Deposits	7,653	6,861
Other borrowed funds	1,275	1,227
Total interest expense	8,928	8,088
Net Interest Income	22,287	17,448
Provision for Loan Losses	349	324
Net Interest Income After Provision for Loan Losses	21,938	17,124
Noninterest Income		
Service charges and fees	707	687
Mortgage banking activities	5,609	8,682
Other-than-temporary impairment		
Total loss related to other than temporarily impaired securities	—	(129)
Portion of loss recognized in other comprehensive income (loss)	—	80
Other-than-temporary impairment loss recognized in net income	—	(49)
Gain (loss) on sale of securities	538	(63)
Loss on asset disposals	(78)	(146)
Other	398	406
Total noninterest income	7,174	9,517
Noninterest Expense		
Salaries and employee benefits	12,348	10,250
Marketing, advertising, and promotion	1,455	1,858
Consulting and professional fees	1,902	2,152
Data processing	995	911
Loan expenses	626	799
Premises and equipment	2,937	2,196
Deposit insurance premium	591	451
Other	1,808	1,865
Total noninterest expense	22,662	20,482
Income Before Income Taxes	6,450	6,159
Income Tax Provision	2,126	1,566
Net Income	$4,324	$4,593
Income Per Share of Common Stock		
Basic	$0.96	$1.51
Diluted	0.96	1.51
Weighted-Average Number of Common Shares Outstanding		
Basic	4,497,007	3,041,666
Diluted	4,507,995	3,050,001
Dividends Declared Per Share	$0.24	$0.22

See Notes to Consolidated Financial Statements

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

	Year Ended December 31, 2014	2013
Net income	$4,324	$4,593
Other comprehensive income (loss)		
Net unrealized holding gains (losses) on securities available for sale	3,260	(6,462)
Reclassification adjustment for (gains) losses realized	(538)	63
Net unrealized holding gains (losses) on securities available for sale for which an other-than-temporary impairment has been recognized in income	751	(129)
Reclassification adjustment for other-than-temporary impairment loss recognized in income	—	49
Other comprehensive income (loss) before tax	3,473	(6,479)
Income tax provision (benefit)	1,236	(2,289)
Other comprehensive income (loss) - net of tax	2,237	(4,190)
Comprehensive income	$6,561	$403

See Notes to Consolidated Financial Statements

First Internet Bancorp
Consolidated Statements of Shareholders’ Equity
(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, 2013	$41,508	$1,818	$18,024	$61,350
Net income	—	—	4,593	4,593
Other comprehensive loss	—	(4,190)	—	(4,190)
Cash dividends declared ($0.22 per share)	—	—	(715)	(715)
Recognition of the fair value of share-based compensation	514	—	—	514
Issuance of common stock warrants	255	—	—	255
Net cash proceeds from common stock issuance	29,101	—	—	29,101
Balance, December 31, 2013	71,378	(2,372)	21,902	90,908
Net income	—	—	4,324	4,324
Other comprehensive income	—	2,237	—	2,237
Cash dividends declared ($0.24 per share)	—	—	(1,080)	(1,080)
Recognition of the fair value of share-based compensation	507	—	—	507
Common stock redeemed for the net settlement of share-based awards	(71)	—	—	(71)
Other	(40)	—	—	(40)
Balance, December 31, 2014	$71,774	$(135)	$25,146	$96,785

See Notes to Consolidated Financial Statements

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

	Year Ended December 31, 2014	2013
Operating Activities		
Net income	$4,324	$4,593
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,904	2,257
Loss from real estate owned	71	11
Increase in cash surrender value of bank-owned life insurance	(390)	(396)
Provision for loan losses	349	324
Stock compensation expense	507	514
Loss on other-than-temporary impairment of securities	—	49
(Gain) loss from sale of available for sale securities	(538)	63
Loans originated for sale	(409,715)	(741,078)
Proceeds from sale of loans	409,453	784,077
Gain on loans sold	(5,048)	(8,379)
(Increase) decrease in fair value of loans held-for-sale	(751)	4
Loss (gain) on derivatives	190	(307)
Deferred income tax	(1,529)	2,259
Net change in:		
Accrued income and other assets	1,964	(2,415)
Accrued expenses and other liabilities	1,189	(36)
Net cash provided by operating activities	1,980	41,540
Investing Activities		
Net change in loans	(124,696)	(61,039)
Net change in interest bearing deposits	500	(2,500)
Loans purchased	(106,480)	(83,265)
Proceeds from liquidation of other real estate owned	235	1,268
Maturities of securities available for sale	21,254	29,757
Proceeds from sale of securities available for sale	137,816	72,019
Purchase of securities available for sale	(112,000)	(134,471)
Purchase of Federal Home Loan Bank of Indianapolis stock	(2,407)	—
Purchase of premises and equipment	(915)	(7,187)
Net cash used in investing activities	(186,693)	(185,418)
Financing Activities		
Net increase in deposits	85,503	142,404
Cash dividends paid	(1,080)	(450)
Proceeds from issuance of subordinated debt and related warrants	—	3,000
Net proceeds from common stock issuance	—	29,101
Repayment of FHLB advances	(95,000)	(22,000)
Proceeds from FHLB advances	170,000	13,000
Other, net	(111)	—
Net cash provided by financing activities	159,312	165,055
Net (Decrease) Increase in Cash and Cash Equivalents	(25,401)	21,177
Cash and Cash Equivalents, Beginning of Year	53,690	32,513
Cash and Cash Equivalents, End of Year	$28,289	$53,690
Supplemental Disclosures of Cash Flows Information		
Cash paid during the year for interest	$8,933	$8,106

Cash paid during the year for taxes	2,346	770
Loans transferred to other real estate owned	—	581
Cash dividends declared, not paid	265	265

See Notes to Consolidated Financial Statements

First Internet Bancorp
Notes to Consolidated Financial Statements
(Dollar amounts in thousands except shares and per share data)

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

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

Description of Business

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

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

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

Securities

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

- Securities that the Company has the positive intent and ability to hold to maturity are classified as "held to maturity" and reported at amortized cost. The Company had no securities classified as "held to maturity" at December 31, 2014 and 2013.

-

Securities that are acquired and held principally for the purpose of selling them in the near term with the objective of generating economic profits on short-term differences in market characteristics are classified as “trading securities” and reported at fair value, with unrealized gains and losses included in earnings. The Company had no securities classified as “trading securities” at December 31, 2014 and 2013.

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

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

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

Loans Held-for-Sale

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

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

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

Revenue Recognition

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

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

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

Loans Receivable

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

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

Allowance for Loan Losses Methodology

Company policy is designed to maintain an adequate allowance for loan losses (“ALLL”). Primary responsibility for ensuring that the Company has processes in place to consistently assess the adequacy of the ALLL rests with the Board of Directors (the “Board”). The Board has charged management with responsibility for establishing the methodology to be used and to assess the adequacy of the ALLL. The Board reviews recommendations from management on a quarterly basis to adjust the allowance as appropriate.

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

1. Loans are segmented by type of loan.

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

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

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

a. Present value of future cash flows;

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

c. The loan's observable market price

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

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

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

The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced over the prior 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.

The Company also factors in the following qualitative considerations:

1. Changes in policies and procedures;

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

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

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

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

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

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

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

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

Provision for Loan Losses

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

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

Nonaccrual Loans

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

Impaired Loans

A loan is designated as impaired 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 generally 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 loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due.

Troubled Debt Restructurings ("TDR")

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

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

Policy for Charging Off Loans

A loan should be charged off at any point in time when it no longer can be considered a bankable asset, meaning collected within the parameters of policy. A secured loan generally should be 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 should be 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.

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

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

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

Other Real Estate Owned

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

Premises and Equipment

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

Derivative Financial Instruments

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

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

Fair Value Measurements

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

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

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

Income Taxes

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

The Company files income tax returns in the U.S. federal, Indiana, and other state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local examinations by tax authorities for years before 2010.

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

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

Earnings Per Share

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

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

	Year Ended December 31,	
	2014	2013
Basic earnings per share		
Net income available to common shareholders	$4,324	$4,593
Weighted-average common shares	4,497,007	3,041,666
Basic earnings per common share	$0.96	$1.51
Diluted earnings per share		
Net income applicable to diluted earnings per share	$4,324	$4,593
Weighted-average common shares	4,497,007	3,041,666
Dilutive effect of warrants	2,895	5,933
Dilutive effect of equity compensation	8,093	2,402
Weighted-average common and incremental shares	4,507,995	3,050,001
Diluted earnings per common share	$0.96	$1.51
Number of warrants excluded from the calculation of diluted earnings per share as the exercise prices were greater than the average market price of the Company’s common stock during the year	—	—

Dividend Restrictions

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Company or by the Company to shareholders. As of December 31, 2014, approximately $16,686 was available to be paid as dividends to the Company by the Bank without prior approval.

Stock Compensation

The Company has a stock-based compensation plan using the fair value recognition provisions of ASC Topic 718, Compensation - Stock Compensation. The plan is described more fully in Note 9.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale, which are also recognized as separate components of equity. Accumulated other comprehensive income (loss) at December 31, 2014 and 2013 is solely related to unrealized gains and losses on available for sale securities.

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

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

Statements of Cash Flows

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

Bank-Owned Life Insurance

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

Goodwill

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

Reclassifications

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

Note 2: Cash and Cash Equivalents

At December 31, 2014, the Company's interest-bearing cash accounts at other institutions did not exceed the limits for full FDIC insurance coverage. However, approximately $2,755 and $23,592 of cash is held by the FHLB of Indianapolis and Federal Reserve Bank of Chicago, respectively, which are not federally insured.

The Company is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2014 was $295.

Note 3: Securities

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

	2014			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Securities available for sale				
U.S. Government-sponsored agencies	$13,680	$129	$(257)	$13,552
Mortgage-backed securities	117,134	282	(368)	117,048
Asset-backed securities	4,913	—	(1)	4,912
Other securities	2,000	6	—	2,006
Total available for sale	$137,727	$417	$(626)	$137,518

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

	2013 Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
Securities available for sale				
U.S. Government-sponsored agencies	$57,569	$470	$(1,762)	$56,277
Municipals	46,126	1,080	(883)	46,323
Mortgage-backed securities	76,371	705	(1,903)	75,173
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 December 31, 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	$—	$—
One to five years	—	—
Five to ten years	811	801
After ten years	12,869	12,751
	13,680	13,552
Mortgage-backed securities	117,134	117,048
Asset-backed securities	4,913	4,912
Other securities	2,000	2,006
Totals	$137,727	$137,518

Gross gains of $2,749 and $461, and gross losses of $2,211 and $524 resulting from sales of available for sale securities were realized for 2014 and 2013, respectively.

As of December 31, 2014, the fair value of available for sale investment securities pledged as collateral was $130,600. The Company pledged the securities for various types of transactions, including FHLB advances and derivative financial instruments.

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2014 and 2013 was $86,873 and $109,946, which is approximately 63% and 61%, respectively, of the Company's available for sale securities 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 with the resulting loss recognized in net income in the period the other-than-temporary impairment ("OTTI") is identified.

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

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

	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 agencies	$801	$(10)	$8,719	$(247)	$9,520	$(257)
Mortgage-backed securities	51,204					