WHERE IMAGINATION CAN SOAR

FIRST INTERNET BANCORP

2020 ANNUAL REPORT

2020 AT A GLANCE

$3.3B TOTAL DEPOSITS

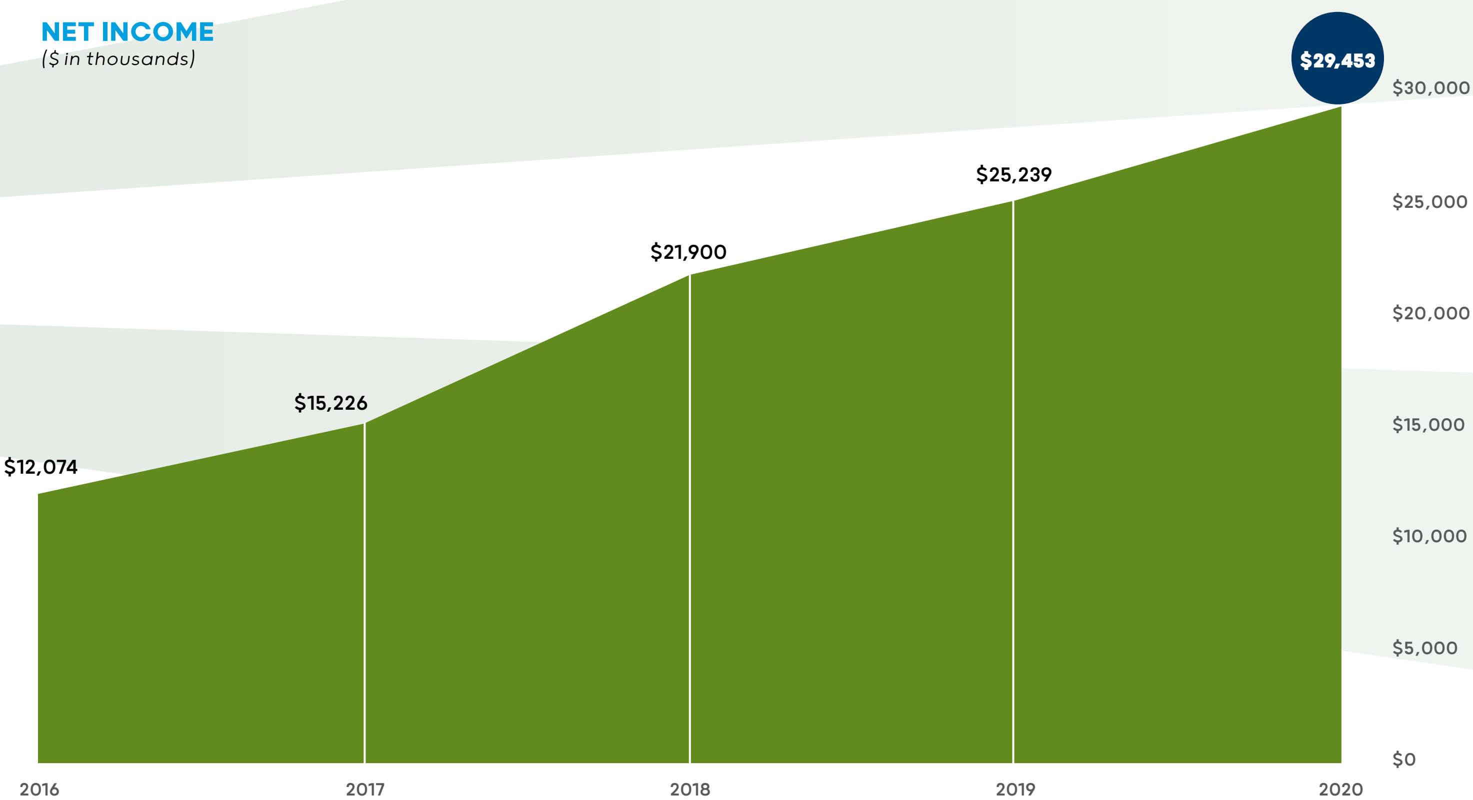
$3.1B TOTAL LOANS

$2.99 2020 DILUTED EPS

27.3% FIVE YEAR ASSET GROWTH CAGR

26.5% 2020 YEAR OVER YEAR REVENUE GROWTH

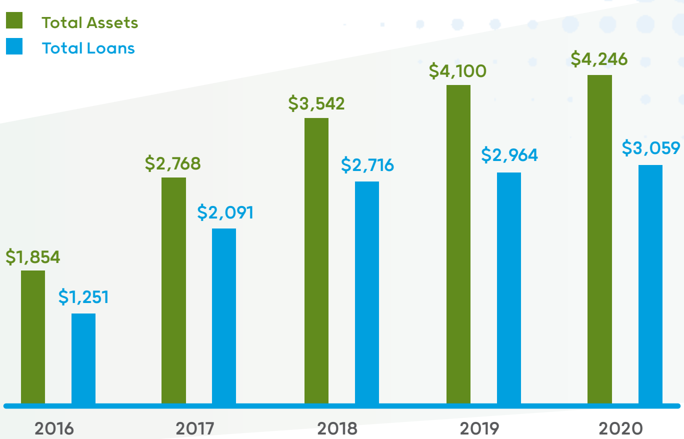
27.0% FIVE YEAR NET INCOME CAGR



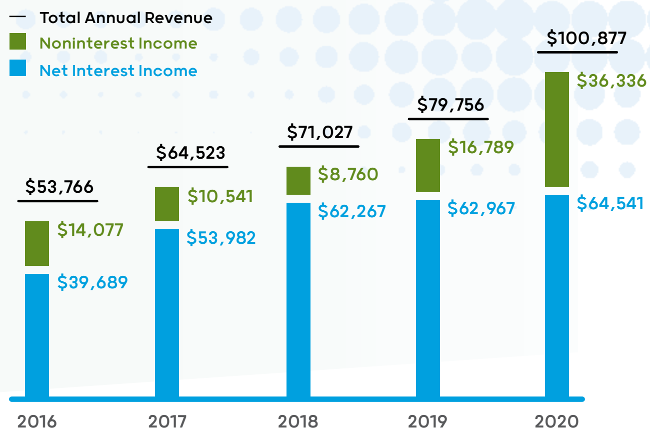
WHERE IMAGINATION CAN SOAR

Imagination is fundamental to First Internet Bank. Since our founder, David Becker, first conceived this innovative approach to banking, it has continued to play an essential role in our development as a company. From our branchless banking model to our culture of collaboration, we rely on creative ideas to help us deliver a more robust and flexible banking experience.

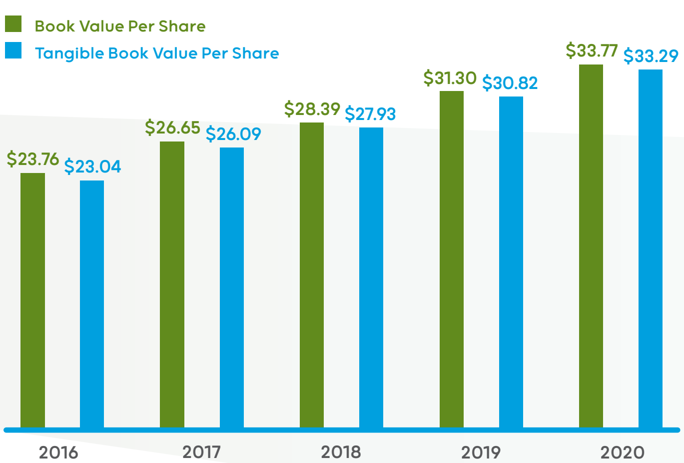
BALANCE SHEET GROWTH *($ in millions)*



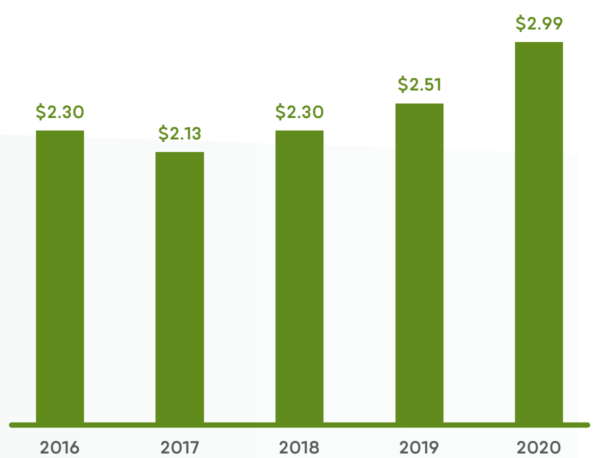
REVENUE GROWTH *($ in thousands)*



BOOK VALUE PER SHARE



DILUTED EPS



> Our foundational principles helped us balance the priority of health, while maintaining our promise of delivering an exceptional banking experience to our customers.

David Becker
Chairman, President and CEO

DEAR FELLOW SHAREHOLDER,

Long before our founding, I was a small business owner with big dreams, and innovative thinking has always informed my approach to business. It continues to shape the decisions we make - and the paths we blaze - at First Internet Bank, allowing our customers to imagine more.

The past year presented extraordinary challenges. From the constraints of isolation to the economic strain of business lockdowns in the wake of the COVID-19 pandemic, we witnessed remarkable resolve within our society. As a company, we enacted creative measures and provided helpful tools to strengthen our associates, customers and communities throughout the year.

Our foundational principles helped us balance the priority of health, while maintaining our promise of delivering an exceptional banking experience to our customers. I'm proud of the talented team we have assembled that, through it all, allowed us to achieve exemplary financial results in 2020. Closing out our twenty-first year of operations, we delivered record net income of $29.5 million and record diluted earnings per share of $2.99, representing a seventeen and nineteen percent increase, respectively.

First Internet Bank attained robust revenue growth, with our direct-to-consumer mortgage business producing the best year in our history. We capitalized on the increase in demand accelerated by low interest rates, winning new business with an unwavering commitment to exceptional service and our user-friendly online mortgage loan process. Our expanding national Small Business Administration (SBA) lending platform also gained momentum and drove gain-on-sale revenue, contributing to our success throughout the year. And, looking ahead, our pipelines in key business lines remain solid heading into 2021.

Financial results were only part of our success in 2020. As I reflect on the many challenges our team members faced over the course of the year - losing loved ones, juggling work and parenting responsibilities as schools closed, struggling for answers in the face of social and political turbulence - I applaud the resilience of our team. Our unique workplace culture promotes innovation, collaboration and customer focus, collectively guiding us forward. We maintained operations at the highest level, while serving our customers and supporting one another. Our response team enabled associates to work remotely in order to reduce our onsite workforce. We implemented new workplace safety guidelines for those who remained in our offices. As a pioneer in digital direct-to-consumer banking, we have always embraced technology, and this year we relied upon it to enhance the opportunities for our newly distributed workforce to communicate effectively.

The need to work together - even as we worked apart from one another, at kitchen tables and in spare bedrooms - was clear as we shaped response plans for our customers. Within days, we instituted relief and deferral options to allow those customers negatively impacted by the pandemic to preserve cash and liquidity. We also worked tirelessly to enroll small business clients in the Paycheck Protection Program, which provided much-needed relief to fellow entrepreneurs.

I am fiercely proud of the way our team responded to events of 2020, and I am prouder still of the resolve we show to challenge ourselves to be better and achieve more in the years ahead.

When we launched First Internet Bank, we introduced a more flexible banking model to better meet the evolving needs of our personal and business clients, one that challenged the conventional delivery system of traditional brick and mortar banks. The pandemic has pulled consumer adoption of digital channels forward by many years; we remain committed to increasing shareholder value by capitalizing on our 20-year head start.

In order to push forward, to innovate, to challenge conventional wisdom, it is imperative that we have a broad range of ideas. We continue to advance our diversity, equity and inclusion initiatives within our organization in order to encourage different perspectives working toward positive customer outcomes. More broadly, we must also be thoughtful about our contributions to the communities we serve and the planet we inhabit. We are on a journey and look forward to sharing our progress with you along the way.

We thank you for your support as we continue forward… and upward. Despite the headwinds we faced in 2020, we are stronger than ever as an organization, and we are so pleased to have been able to deliver another outstanding year for our shareholders. On behalf of the team at First Internet Bank, I thank you for your support for allowing us to create an environment where imagination can soar.

Sincerely,

David B Becker

DAVID B. BECKER
Chairman, President and
Chief Executive Officer

SOLUTIONS THAT KEEP YOU SOARING

From the founding of First Internet Bank in 1999, we've been passionate about delivering a better banking experience through convenience and unparalleled support to our customers.

NATIONWIDE DEPOSITS

Without a costly branch network to weigh us down, we can offer competitive rates and low fees with all the online and mobile banking tools our customers need to help them make smart financial choices. Our offerings include deposit accounts for consumers, small and mid-size businesses and municipalities.

RESIDENTIAL MORTGAGE AND HOME EQUITY LENDING

With an award-winning national online platform for origination in all 50 states, we offer conventional, FHA, VA and jumbo 1-4 family mortgage loans. We also originate home equity loans and lines of credit.

CONSUMER LENDING

By lending directly to consumers as well as indirectly through an established dealer network, we attract creditworthy customers across the country. We offer loans for a variety of consumer needs with a specialization in recreational vehicle and horse trailer loans.

SMALL BUSINESS LENDING

Our Small Business Administration (SBA) lending team has the experience needed to create tailored financial solutions that preserve capital, lower monthly payments and deliver future flexibility and payment certainty. Our SBA Preferred Lender status allows us to deliver a faster, streamlined loan process. Spending less time on the loan process, means more time for customers to focus on what matters most - growing their business.

COMMERCIAL REAL ESTATE LENDING

We deliver financing solutions for experienced developers and owners of investment property located throughout Indiana and nearby Midwestern locations featuring a variety of real estate oriented loan products. Offerings include construction and development debt capital for office, retail, industrial and multi-family properties. We also finance residential construction and development with active, reputable homebuilders and developers operating in the Central Indiana market.

SINGLE TENANT LEASE FINANCING

Acquisition financing is offered nationwide for savvy real estate owners introduced to us through our committed, growing network of mortgage bankers, brokers and national correspondents. Properties financed are generally well-located within their respective markets and subject to long-term, net lease arrangements with well-known, financially qualified tenants.

COMMERCIAL BANKING

We offer customized solutions on business lines of credit, term loans, credit cards and owner-occupied real estate to middle-market companies in Indiana and Arizona. Our comprehensive lineup of online treasury management services allows our clients to run their businesses more efficiently and optimize their cash positions with robust reporting and access capabilities.

PUBLIC FINANCE

We offer a variety of lending and depository solutions for government entities and municipal utilities. Options are available for funding capital projects or refinancing existing debt for schools, hospitals, police and fire departments, development districts and public

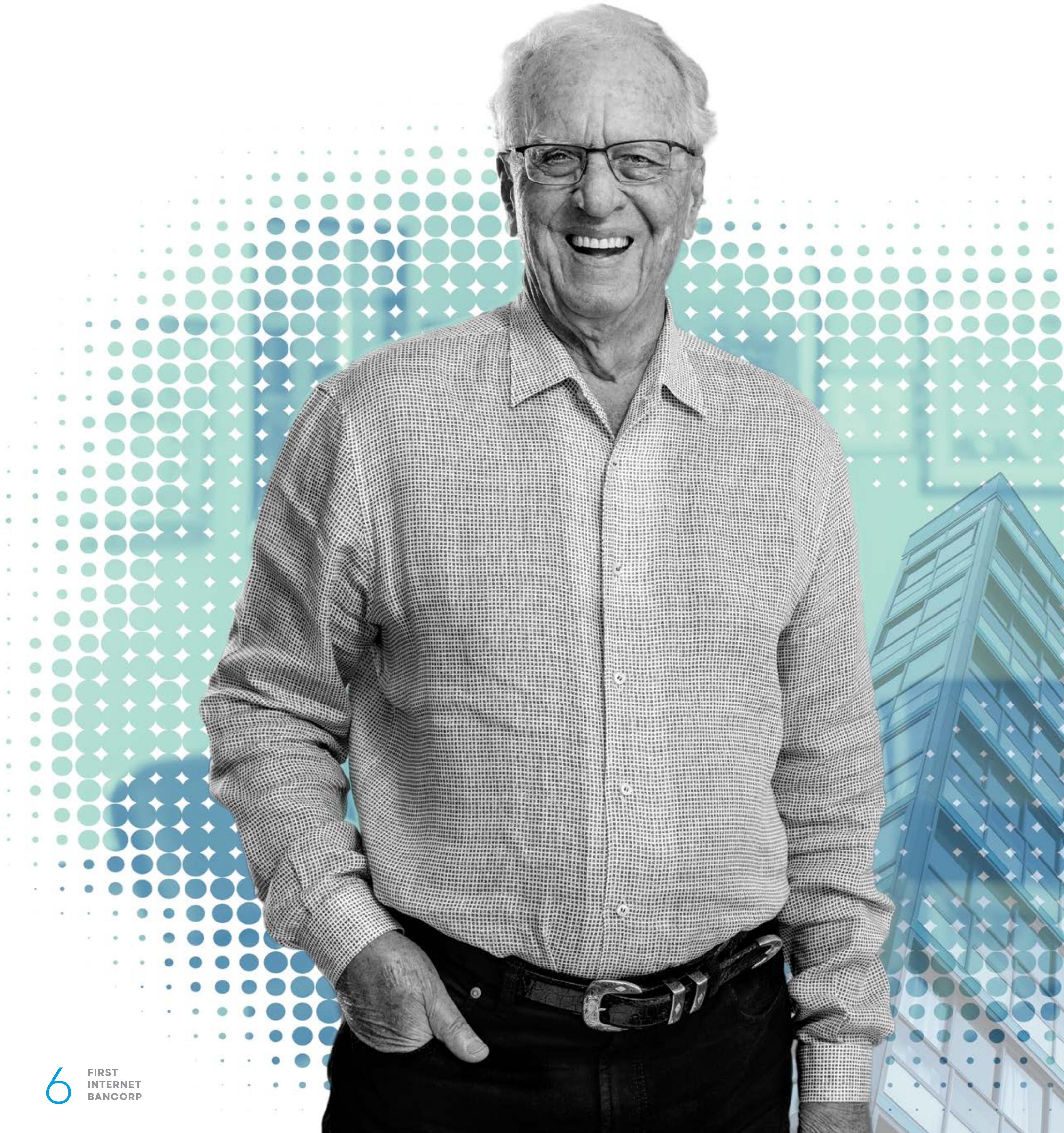
HEALTHCARE FINANCE

Through a partnership with Provide, a San Francisco-based technology-enabled lender, we offer business loans for dental, veterinary and other healthcare practices. Funding is available for buying or growing a practice, refinancing practice debt, owner-occupied real estate or buying equipment.

IMAGINE MORE.

"We've developed a talent for placing people in situations where both parties thrive.

Paul Smith
Owner,
Allstaff
Services



AN IMAGINATIVE SOLUTION TO STAFFING

Creating a productive workplace is critical to any successful business, and having an employee base working collaboratively toward a single objective is fundamental. Owner Paul Smith understands the role his staffing company, Allstaff Services, plays in fostering positive work environments for his customers. With a roster of Arizona-based clients that employ large numbers of people, including the University of Arizona and the City of Phoenix, Allstaff's magic lies in connecting the right recruits with the right companies. "We've been in business for over 60 years now," said Smith. "And with that experience, proper due diligence and a pinch of intuition, we've developed a talent for placing people in situations where both parties thrive."

Smith and his company have honed that unique skill set over time, but finding a cultural "fit" is something that comes naturally to him. He is admittedly a little old fashioned - he doesn't have much use for modern communication tools like social media, email, or a cell phone for that matter - but face-to-face interactions make him happy and play an integral part in Allstaff's success.

So how did a person like Smith who has little interest in today's personal technologies come to conduct his business finances at a bank with "internet" in its name? "I may not use much technology personally, but that does not mean I do not understand it or have an appreciation of what it's capable of doing for my business," said Smith. "And, my accounting department sure finds it convenient. Plus, the personal relationship I have with the bank's associates is what provides them the deep understanding of our specific needs that our previous banks never fully grasped."

At First Internet Bank, we pioneered a different way of banking - one that embraces technology, while never losing sight of the personal touch. Bridging the two is what we do best, and we are proud to partner with companies like Allstaff that imaginatively blend a bit of both to help their clients build harmonious workplaces.

IMAGINE MORE.

IGNITING THE SPARK THAT DRIVES SMALL BUSINESS

Small business is the lifeblood of the American economy, creating well over half of all new jobs and driving innovations that transform lives. The U.S. Small Business Administration (SBA) helps business owners and entrepreneurs pursue the American dream, and First Internet Bank is proud to work as an active SBA partner, continuing to support small businesses nationwide. From the tiniest spark may burst a mighty flame, after all, and we have long embodied this sentiment within our own walls and have spread that spirit across the country, providing access to capital for entrepreneurial ventures.

With more than 20 years of combined SBA experience, First Internet Bank's Eve Wilkerson and Mike Castle share deep expertise in the SBA process, as well as a passion for seeing those customers grow. "Not only do I love my customers, I love what I do," said Wilkerson. "It's truly a thrill to be an integral part of my clients' journeys." As Vice President, Senior Business Development Officer, Wilkerson helps shepherd small businesses through the intricacies of SBA procedures by helping them avoid potential pitfalls in the lending process and allowing them, instead, to focus on the entrepreneurial side of their business. Castle, Assistant Vice President, SBA Special Assets Manager, is highly experienced in supporting customers throughout the life of their loans. "It's rewarding to find ways to help smooth the roads for our clients as they continue to grow," said Castle. "And, to be a part of such a talented SBA team at First Internet Bank really keeps me energized at work."

Today, First Internet Bank enjoys Preferred Lender Status with the SBA, which allows decision-making ability to remain at the bank, expediting and streamlining the lending process. By coupling that distinction with our passion to create effective financial solutions, we are perfectly positioned to help small businesses light a spark where their imaginations can burn brightly.

IMAGINE MORE.

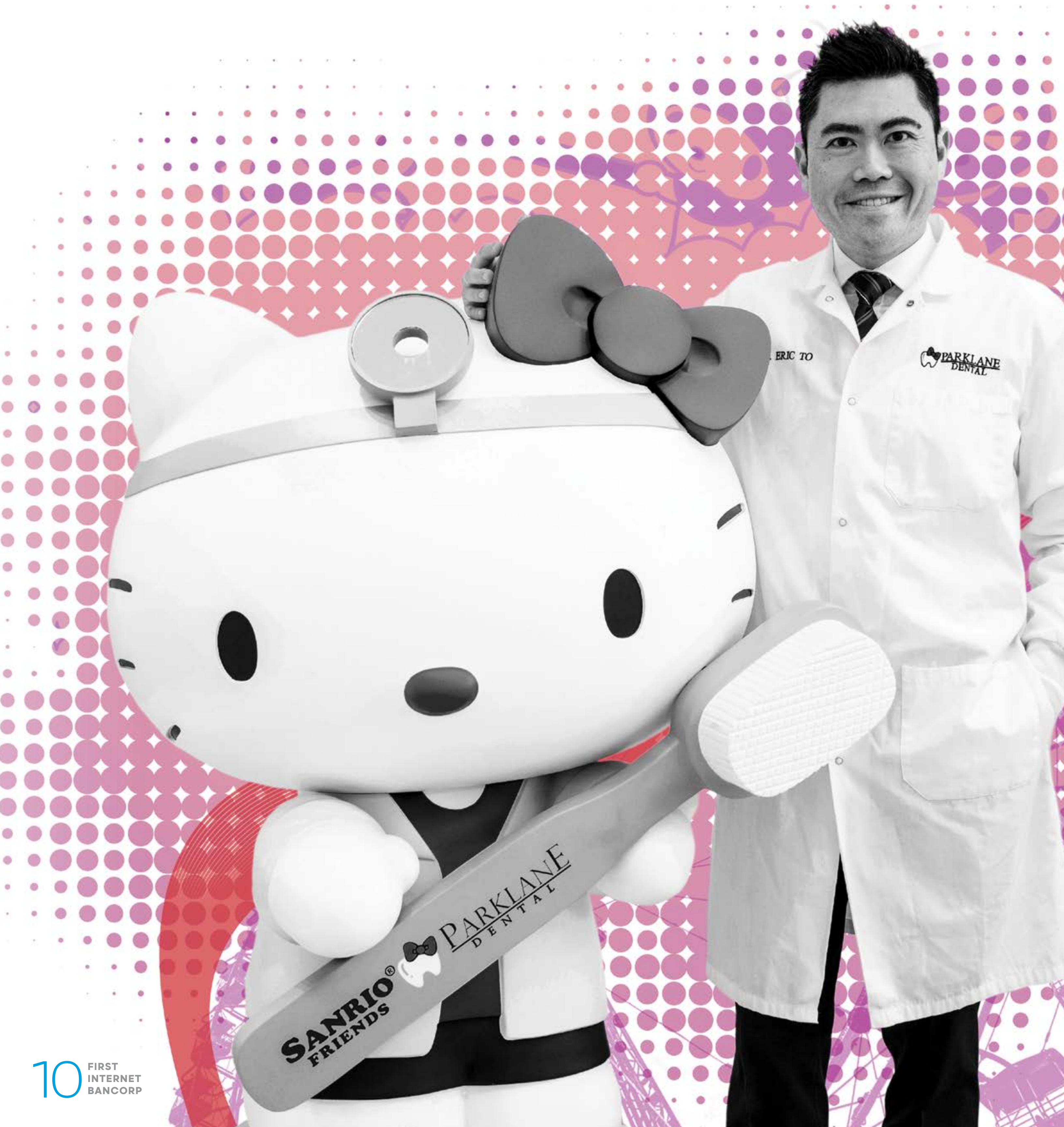
Eve Wilkerson & Mike Castle
First Internet Bank,
SBA Team Members

"It's truly a thrill to be

Eve Wilkerson
Vice President, Senior Business Development Officer

I knew that (bringing these fun characters into our new office space) might ease the fear of going to the dentist.

Dr. Eric To
Owner,
Parklane Dental



A TRULY UNIQUE ENVIRONMENT

Dr. Eric To's dental practice, with locations in Temple City and Arcadia, California, boasts a patient list that includes people from around the globe. Why would one travel thousands of miles to visit the dentist? Hello Kitty, of course. "But when they come back, it's always for the service," said To with a smile.

Outside of Japan, Parklane Dental is the only Hello Kitty-themed dental office in the world. And, with the help of social media and referrals from happy patients, his unique practice has experienced significant growth. In 2018, it became apparent the existing facility was no longer able to handle the expanding patient base. To make room, they decided to purchase a 4,800-square-foot space which today includes 12 operatory rooms, a large waiting area - and, of course, Hello Kitty.

To was inspired to partner with the Japanese company that creates Hello Kitty characters after his daughter was hospitalized and found comfort in her Hello Kitty doll during her recovery. "I felt like bringing these fun characters into our new office space would offer patients a unique experience," said To. "I knew that might ease the fear of going to the dentist, much like it did for my daughter."

First Internet Bank has always valued the spirit of entrepreneurs like Dr. To, who aren't afraid to imagine new ways of approaching - and building - their business. Through our partnership with Provide, we offer healthcare practices a streamlined approach to financing. "The understanding of my business, and the efficiency and speed of our loan officer, truly simplified the process," said To. "I was able to spend more time creating ways to shape our new space to better meet patient needs."

At First Internet Bank, we welcome the opportunity to serve practices like Parklane Dental, and we're proud to be a small part of making their imaginative office environment a place where patients can't help but smile.

IMAGINE MORE.

DELIVERING RELIEF THROUGH COLLABORATION

For over 20 years, First Internet Bank has built its reputation on understanding the needs of small business owners. So when government-implemented measures to limit the spread of COVID-19 began to adversely affect our small business customers across the country, we established a cross-functional team of more than 30 associates to collaboratively strategize, plan and roll out the Paycheck Protection Program (PPP) to provide much-needed financial relief to those who needed it most. “Even as the program was still evolving, we knew we needed to offer support to our customers,” said Chelsie Hatoway, First Internet Bank’s Business Solutions Manager, IT. “So we dove in head first with a full understanding of what was at stake.”

Those round-the-clock efforts helped customers across a wide range of industries, including food service, not-for-profit organizations, construction and retail maintain their operations and payroll when the economic outlook was often uncertain. Before the PPP funds had been exhausted, our lending teams had essentially worked around the clock to successfully enroll 456 small business clients in the program, infusing $58 million in capital and liquidity into our local economies.

We always approach new challenges with an entrepreneurial spirit, and that notion provided the foundation for our PPP team. From applying e-signature technology that ensured all transactions were conducted remotely, to educating our customer-facing employees who were guiding our clients through a new process, we seamlessly delivered an effective digital experience under extraordinary time constraints and conditions. “There was so much anxiety across the country that business owners were rightfully concerned about their operations and the well-being of their families and their employees,” said Tom Smith, First Internet Bank, Regional Vice President Commercial Banking. “To hear from our customers the gratitude and sense of relief we helped provide made the focus on securing PPP loans well worth the effort.” While challenges endure at many small businesses, we are proud of our collective efforts to help fellow entrepreneurs return to more normal conditions.

IMAGINE MORE.

> The opportunity to witness the agility of our teams collaborating to achieve such an important outcome is one I won't forget.

LaToya Ashé, AVP, Internal Audit

John Bykowski, Application Services Manager, IT

Chelsie Hatoway, Business Solutions Manager, IT

Phil Kryder, First Vice President, Special Projects, Administration

Tom Smith, Regional Vice President, Commercial Banking

FIRST INTERNET BANK

IMAGINE MORE.

LaToya Ashé, AVP, Internal Audit

Cynthia Jones, Loan Operations Specialist, Retail Banking Operations

Heather Whitaker, Executive Assistant

Deepu Sondhe, AVP, Commercial Deposits and Treasury Management

Above are a few members of our PPP team who tirelessly balanced their primary responsibilities while helping navigate our small business customers through the PPP relief process.

" The people we serve are just like you and me, but they were often dealt a tougher

Suzy Pierce
Executive Director, Craine

A BETTER WAY FORWARD

As a corrections officer and deputy sheriff, Suzy Pierce developed a compassion for the unfortunate individuals caught in the criminal justice system. So often they are doomed to perpetuate a generational cycle of crime with the odds stacked not only against them, but against the less visible victims of incarceration - their children. Today, as Executive Director at Craine House, she is able to effectively help change the course of nonviolent female offenders and their young children through the organization's alternative sentencing work release program that boasts recidivism rates three times lower than that of traditional incarceration programs.

At Craine House, women remain with their young children while learning and practicing essential life skills, from parenting, education and social guidance, paving a way to a brighter future for the family in a unique home-like setting. "As a society, we to tend to overlook the circumstances that cause individuals to make bad choices," said Pierce. "The people we serve are just like you and me, but they were often dealt a tougher hand in life. It's our job to provide the resources and counseling they need to make the most of a second chance."

When Craine House made the decision to engage with a new bank, First Internet Bank took the time to fully explore the mission of the organization as well as its long-term aspirations. This immersive approach is one of the aspects that distinguishes us from other banks and that ensures our clients receive better financial advice. "First Internet Bank really got to know us," said Pierce. "They gained an understanding of our mission that makes the relationship a valuable partnership, not just a transactional association."

Reimagining business conventions is foundational to First Internet Bank, and Craine House epitomizes that mindset, having created a better way forward by disrupting the traditional approach. We are proud to partner with such an imaginative organization that provides a setting that nurtures fresh starts.

IMAGINE MORE.

OUR WORKPLACE

Imagine a workplace where innovative banking solutions are developed and where professional and personal growth is nurtured. We've created such an environment at First Internet Bank, as our recognition shows.

Best Banks to Work For

First Internet Bank was recognized as one of the Best Banks to Work For in 2020, in a nationwide ranking by *American Banker* and Best Companies Group. We've earned the distinction of being one of the best every year since the program began in 2013.

Top Workplaces in Indianapolis

First Internet Bank made the list of top Indianapolis Workplaces in 2020, the 7th consecutive year the Bank has earned the honor from *The Indianapolis Star*.

America's Best Banks

In its first-time ranking of financial institutions, *Newsweek* awarded First Internet Bank's Small Business Checking account "best-in-class" for 2021.

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 934

☑ For the Fiscal Year Ended December 31, 2020.

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 934

☐ For the Transition Period From ________ to ________.

Commission File Number **-35750**

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

Indiana	**-3489991**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
USA Parkway **Fishers, Indiana**	**46037**
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class	Trading Symbols	Name of exchange on which registered
Common stock, without par value	INBK	The Nasdaq Stock Market LLC
6.0% Fixed to Floating Subordinated Notes due 2026	INBKL	The Nasdaq Stock Market LLC
6.0% Fixed to Floating Subordinated Notes due 2029	INBKZ	The Nasdaq Stock Market LLC

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No ☑

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated Filer ☑
Non-accelerated filer ☐	Smaller reporting company ☑
Emerging growth company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☑

The aggregate market value of common stock held by non-affiliates of the registrant as of June 30, 2020, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $152.5 million, based on the closing sale price for the registrant's common stock on that date. or 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 5, 2021, the registrant had 9,823,231 shares of common stock issued and outstanding.

Documents Incorporated By Reference

Portions of our Proxy Statement for our 2021 Annual Meeting of Shareholders are incorporated by reference in Part III.

Cautionary Note Regarding Forward-Looking Statements

This annual report on Form 10-K contains "forward-looking statements" within the meaning of the federal securities laws. These statements are not historical facts, but rather statements based on the current expectations of First Internet Bancorp and its consolidated subsidiaries (the "Company," "we," "our," or "us") regarding its business strategies, intended results and future performance. orward-looking statements are generally preceded by terms such as "anticipate," "attempt," "believe," "can," "continue," "could," "effort," "estimate," "expect," "intend," "likely," "may," "objective," "optimistic," "pending," "plan," "position," "potential," "preliminary," "remain," "should," "will," "would," or other similar expressions. Such statements are subject to certain risks and uncertainties including: the effects of the COVID-19 global pandemic and other adverse public health developments on the economy, our business and operations and the business and operations of our vendors and customers; general economic conditions, whether national or regional, and conditions in the lending markets in which we participate that may have an adverse effect on the demand for our loans and other products, our credit quality and related levels of nonperforming assets and loan losses, and the value and salability of the real estate that we own or that is the collateral for our loans; failures or breaches of or interruptions in the communication and information systems on which we rely to conduct our business that could reduce our revenues, increase our costs or lead to disruptions in our business; our plans to continue originating commercial real estate, commercial and industrial, public finance, U.S. Small Business Administration ("SBA") and healthcare finance loans, which may carry greater risks of non-payment or other unfavorable consequences; our dependence on capital distributions from irst Internet Bank of Indiana (the "Bank"); results of examinations of us by our regulators, including the possibility that our regulators may, among other things, require us to increase our allowance for loan losses or to write-down assets; changing bank regulatory conditions, policies or programs, whether arising as new legislation or regulatory initiatives, that could lead to restrictions on activities of banks generally, or the Bank in particular; more restrictive regulatory capital requirements; increased costs, including deposit insurance premiums; regulation or prohibition of certain income producing activities or changes in the secondary market for loans and other products; changes in market rates and prices that may adversely impact the value of securities, loans, deposits and other financial instruments and the interest rate sensitivity of our balance sheet; our liquidity requirements being adversely affected by changes in our assets and liabilities; the effect of legislative or regulatory developments, including changes in laws concerning taxes, banking, securities, insurance and other aspects of the financial services industry; competitive factors among financial services organizations, including product and pricing pressures and our ability to attract, develop and retain qualified banking professionals; execution of future acquisition, reorganization or disposition transactions, including without limitation, the related time and costs of implementing such transactions, integrating operations as part of these transactions and possible failures to achieve expected gains, revenue growth and/or expense savings and other anticipated benefits from such transactions; changes in applicable tax laws; the growth and profitability of noninterest or fee income being less than expected; the loss of any key members of senior management; the effect of changes in accounting policies and practices, as may be adopted by the Financial Accounting Standards Board (the "FASB"), the Securities and Exchange Commission (the "SEC"), the Public Company Accounting Oversight Board and other regulatory agencies; and the effect of fiscal and governmental policies of the United States federal government. Additional factors that may affect our results include those discussed in this report under the heading "Risk Factors" and in other reports filed with the SEC. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The factors listed above could affect our financial performance and could cause our actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

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

First Internet Bancorp
Table of Contents

PART I

Item 1. Business

When we refer to "First Internet Bancorp," the "Company," "we," "us" and "our" in the remainder of this annual report on Form 10-K, we mean irst Internet Bancorp and its consolidated subsidiaries, unless the context indicates otherwise. References to "First Internet Bank" or the "Bank" refer to First Internet Bank of Indiana, an Indiana chartered bank and wholly-owned subsidiary of the Company.

General

First Internet Bancorp is a bank holding company with $4.2 billion in total assets as of December 31, 2020, that conducts its primary business activities through its wholly-owned subsidiary, First Internet Bank of Indiana, an Indiana chartered bank. First Internet Bank of Indiana is the first state-chartered, Federal Deposit Insurance Corporation ("FDIC") insured Internet bank and commenced banking operations in 1999. irst Internet Bancorp is 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.

The Bank has three wholly-owned subsidiaries: First Internet Public inance Corp., which provides a range of public and municipal finance lending and leasing products to governmental entities throughout the United States and acquires securities issued by state and local governments and other municipalities; JKH Realty Services, LLC, which manages other real estate owned properties as needed; and SPF15 Inc., which was established to acquire and hold real estate.

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

Our commercial banking products and services are delivered through a relationship banking model and include commercial real estate ("CRE") banking, commercial and industrial ("C&I") banking, public finance, healthcare finance, small business lending and commercial deposits and treasury management. Through our CRE team, we offer single tenant lease financing on a nationwide basis in addition to traditional investor CRE and construction loans primarily within Central Indiana and adjacent markets. Our C&I banking team provides credit solutions such as lines of credit, term loans, owner-occupied CRE loans and corporate credit cards to commercial borrowers located primarily in Central Indiana, Phoenix, Arizona and adjacent markets. Our public finance team provides a range of public and municipal lending and leasing products to government entities on a nationwide basis. Our healthcare finance team was established in conjunction with our strategic partnership with Provide Inc. (formerly known as Lendeavor, Inc.), a San Francisco-based technology-enabled lender to healthcare practices, and provides lending on a nationwide basis for healthcare practice finance or acquisition, acquisition or refinancing of owner-occupied CRE and equipment purchases. Our commercial deposits and treasury management team works with the other commercial teams to provide deposit products and treasury management services to our commercial and municipal lending customers as well as pursues commercial deposit opportunities in business segments where we have no credit 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 digital banks but we also compete with traditional banks, savings banks, credit unions, investment banks, insurance companies, securities brokerages and other financial institutions, as nearly all have some form of digital delivery for their retail banking services. or residential mortgage lending, we compete with other digital lenders but also compete with money center and superregional banks.

For our C&I lending activities, we compete with larger financial institutions operating in the Midwest and Southwest. For our single tenant lease financing activities, we compete nationally with regional banks, local banks and credit unions, as well as life insurance companies and commercial mortgage-backed securities lenders. or our public finance and healthcare finance activities, we compete nationally with superregional and regional banks. These competitors may have significantly greater financial resources and higher lending limits than we do and may also offer specialized products and services that we do not.   or our small business lending activities, we compete on a national footprint with other participating SBA-approved lenders, including a large number of regional or community banks. These competitors have resources and/or lending limits that differ greatly from one another.

Human Capital Resources

As of December 31, 2020, we had 257 total employees, of which 255 were full-time employees. Throughout our history, team members have been our most valuable assets, helping to create a strong workplace culture that recognizes the unique contributions and perspectives each individual brings to the organization.

At   irst Internet Bank, we encourage our employees to “Imagine More”. We seek the game-changers, innovators and dreamers – those who are driven to find a better way of doing things for customers and each other. We encourage community involvement and opportunities that support team members, both inside and outside the office. We may be a digital bank, but we strongly believe in the power of personal connection and collaboration.

We strive to foster an entrepreneurial spirit that creates an environment where all our colleagues thrive. We encourage innovation, collaboration and diversity among team members, partners and in the communities we serve. But as recent social events have demonstrated, we recognize the need to continually challenge ourselves to improve. To that end, First Internet Bank has engaged an outside firm to further enhance our Diversity, Equity and Inclusion efforts with regards to product offerings, as well as the recruitment, retention and promotion of our team members.

An important part of our culture has always been to encourage outreach. This year, team members again demonstrated their commitment to giving back to their communities, with volunteer efforts totaling thousands of hours serving on non-profit boards, distributing food to those in need and donating time to other charitable causes.

Supporting and developing our people is a foundational tenet. Our ability to attract the best talent from a diverse range of sources allows us to effectively serve the needs of our business and customers. Employees are empowered to grow professionally and personally through training opportunities and internal development programs that can lead to career advancement, with increased job satisfaction and engagement. This focus on employees is evident in the number of “best workplace” awards we have been honored with over the years.

The COVID-19 pandemic presented unforeseen challenges. We were proactive in responding by implementing our business continuity plan and new initiatives to maintain operations at the highest level, while serving our customers and supporting our employees.

Our response team introduced a number of initiatives, including new workplace safety guidelines, adjusting our banking center hours, reducing our onsite workforce and encouraging team members to work remotely if possible. Ongoing internal communications provided access to the latest COVID-19 information from the Centers for Disease Control, World Health Organization, as well as local, state and federal agencies. We continue to monitor and adjust our plans to optimize support for the organization. Fortunately, as a digital bank without branch locations to maintain, our business model has supported online, contactless transactions since our inception.

At First Internet Bank, we create new ideas. We explore new paths. Ultimately, we get better, individually and collectively.

Regulation and Supervision

FDIC-insured institutions, like the Bank, as well as their holding companies and affiliates, are extensively regulated under federal and state law. As a result, the Company's growth and earnings performance may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory agencies, including the Indiana Department of Financial Institutions (the "DFI"), the Board of Governors of the Federal Reserve System (the "Federal Reserve"), the FDIC and the Consumer inancial Protection Bureau ("CFPB"). Furthermore, taxation laws administered by the Internal Revenue Service and state taxing authorities, accounting rules developed by the Financial Accounting Standards Board ("FASB"), securities laws administered by the Securities and Exchange Commission ("SEC") and state securities authorities, and anti-money laundering laws enforced by the U.S. Department of the Treasury have an impact on the Company's business. The effect of these statutes, regulations, regulatory policies and accounting rules are significant to the Company's operations and financial condition.

Federal and state banking laws impose a comprehensive system of supervision, regulation, and enforcement on the operations of FDIC-insured institutions, their holding companies, and affiliates that is intended primarily for the protection of the FDIC-insured deposits and depositors of banks, rather than shareholders. These laws, and the regulations of the bank regulatory agencies issued under them, affect, among other things, the scope of the Company's business; the kinds and amounts of investments the Company and Bank may make; required capital levels relative to assets; the nature and amount of collateral for loans; the ability to merge, consolidate, and acquire; dealings with the Company's and Bank's insiders and affiliates; and the Company's payment of dividends.

In reaction to the global financial crisis, and particularly following the passage of Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") in 2010, the Company experienced heightened regulatory requirements and scrutiny. Although the reforms primarily targeted systemically important financial service providers (at the time, those with assets of $50.0 billion and greater), certain provisions of the law triggered at $10.0 billion in assets and the influence of other provisions filtered down in varying degrees to community banks over time, causing the Company's compliance and risk management processes, and the costs thereof, to increase. Then, in May 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act was enacted to provide meaningful relief for banks and their holding companies that were not considered systemically important (defined by amendment to be those with assets under $100.0 billion). The Company believes that such reforms are favorable to its operations.

The supervisory framework for U.S. banking organizations subjects banks and bank holding companies to regular examination by their respective regulatory agencies, which results in examination reports and ratings that are not publicly available and that can impact the conduct and growth of their business. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability and performance, earnings liquidity, and various other factors. Regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law, or are otherwise inconsistent with laws and regulations.

The following is a summary of the material elements of the supervisory and regulatory framework applicable to the Company and Bank, beginning with a discussion of the impact of the COVID-19 pandemic on the banking industry. It does not describe all of the statutes, regulations, and regulatory policies that apply, nor does it restate all of the requirements of those that are described. The descriptions are qualified in their entirety by reference to the particular statutory and regulatory provision.

<u>COVID-19 Pandemic</u>

Federal bank regulatory agencies, along with their state counterparts, have issued a steady stream of guidance responding to the COVID-19 pandemic and have taken a number of unprecedented steps to help banks navigate the pandemic and mitigate its impact. These include, without limitation: requiring banks to focus on business continuity and pandemic planning; adding pandemic scenarios to stress testing; encouraging bank use of capital buffers and reserves in lending programs; permitting certain regulatory reporting extensions; reducing margin requirements on swaps; permitting certain otherwise prohibited investments in investment funds; issuing guidance to encourage banks to work with customers affected by the pandemic and encouraging loan workouts; and providing credit under the Community Reinvestment Act (the "CRA") for certain pandemic-related loans, investments, and public services. Because of the need for social distancing measures, the agencies revamped the manner in which they conducted periodic examinations of their regulated institutions, including making greater use of off-site reviews.

Moreover, the Federal Reserve issued guidance encouraging banking institutions to utilize its discount window for loans and intraday credit extended by its Reserve Banks to help households and businesses impacted by the pandemic and announced numerous funding facilities. The FDIC also has acted to mitigate the deposit insurance assessment effects of participating in the Paycheck Protection Program and the Federal Reserve's PPP Liquidity acility and Money Market Mutual Fund Liquidity Facility.

Reference is made to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Impact of the COVID-19 Pandemic," "- Non-TDR Loan Modifications due to COVID-19," and "- U.S. Small Business Administration Paycheck Protection Program" for information on the CARES Act, the PPP and for discussions of the economic impact of the COVID-19 pandemic. In addition, information as to selected topics, such as the impact on capital requirements, dividend payments, reserves, and CRA, is contained in the relevant sections of this Regulation and Supervision discussion.

Regulatory Capital

Regulatory capital represents the net assets of a banking organization available to absorb losses. Because of the risks attendant to their business, FDIC-insured institutions are generally required to hold more capital than other businesses, which directly affects the Company's earnings capabilities. While capital has historically been one of the key measures of the financial health of both bank holding companies and banks, its role became fundamentally more important in the wake of the global financial crisis, as banking regulators recognized that the amount and quality of capital held by banks prior to the crisis was insufficient to absorb losses during periods of severe stress. Certain provisions of the Dodd-Frank Act and Basel III, discussed below, establish capital standards for banks and bank holding companies that are meaningfully more stringent than those in place previously.

Capital Levels. Banks have been required to hold minimum levels of capital based on guidelines established by bank regulatory agencies since 1983. The minimums have been expressed in terms of ratios of "capital" divided by "total assets." The capital guidelines for U.S. banks beginning in 1989 have been based upon international capital accords, known as "Basel" rules, adopted by the Basel Committee on Banking Supervision (the "BCBS"), a committee of central banks and bank supervisors that acts as the primary global standard-setter for prudential regulation, as implemented by the U.S. bank regulatory agencies on an interagency basis. The accords recognized that bank assets for the purpose of the capital ratio calculations needed to be weighted (the theory being that riskier assets should require more capital) and that off-balance-sheet credit exposures needed to be factored in the calculations. ollowing the global financial crisis, the Group of Governors and Heads of Supervision, the oversight body of the BCBS, announced agreement on a strengthened set of capital requirements for banking organizations around the world, known as Basel III, to address deficiencies recognized in connection with the global financial crisis.

The Basel III Rule. In July 2013, the U.S. federal banking agencies approved implementation of the Basel III regulatory capital reforms in pertinent part, and, at the same time, promulgated rules effecting certain changes required by the Dodd-Frank Act (the "Basel III Rule"). In contrast to capital requirements historically, which were in the form of guidelines Basel III was released in the form of binding regulations by each of the regulatory agencies. The Basel III Rule increased the required quantity and quality of capital and required more detailed categories of risk weighting of riskier, more opaque assets. For nearly every class of assets, the Basel III Rule requires a more complex, detailed, and calibrated assessment of risk in the calculation of risk weightings. The Basel III Rule is applicable to all banking organizations that are subject to minimum capital requirements, including federal and state banks and savings and loan associations, as well as to most bank and savings and loan holding companies. The Company and Bank are each subject to the Basel III Rule as described below.

Not only did the Basel III Rule increase most of the required minimum capital ratios in effect prior to January 1, 2015, but in requiring that forms of capital be of higher quality to absorb loss, it also introduced the concept of Common Equity Tier 1 Capital, which consists primarily of common stock, related surplus, retained earnings, and Common Equity Tier 1 minority interests subject to certain regulatory adjustments. The Basel III Rule also changed the definition of capital by establishing more stringent criteria that instruments must meet to be considered Additional Tier 1 Capital (primarily non-cumulative perpetual preferred stock that meets certain requirements) and Tier 2 Capital (primarily other types of preferred stock and subordinated debt, subject to limitations). The Basel III Rule also constrained the inclusion of minority interests, mortgage-servicing assets, and deferred tax assets in capital and required deductions from Common Equity Tier 1 Capital in the event that such assets exceeded a percentage of a banking institution's Common Equity Tier 1 Capital.

The Basel III Rule requires minimum capital ratios as follows:

- A ratio of minimum Common Equity Tier 1 Capital equal to 4.5% of risk-weighted assets;
- A ratio of minimum Tier 1 Capital equal to 6% of risk-weighted assets;
- A continuation of the minimum required amount of Total Capital (Tier 1 plus Tier 2) at 8% of risk-weighted assets; and
- A minimum leverage ratio of Tier 1 Capital to total quarterly average assets equal to 4% in all circumstances.

In addition, institutions that seek the freedom to make capital distributions (including for dividends and repurchases of stock) and pay discretionary bonuses to executive officers without restriction must also maintain 2.5% in Common Equity Tier 1 Capital attributable to a capital conservation buffer. The purpose of the conservation buffer is to ensure that banking institutions maintain a buffer of capital that can be used to absorb losses during periods of financial and economic stress. Factoring in the conservation buffer increases the minimum ratios depicted above to 7.0% for Common Equity Tier 1 Capital, 8.5% for Tier 1 Capital and 10.5% for Total Capital. ederal bank regulators released a joint statement in response to the COVID-19 pandemic reminding the industry that capital and liquidity buffers were meant to give banks the means to support the economy in adverse situations, and that the agencies would support banks that use the buffers for that purpose if undertaken in a safe and sound manner.

Well-Capitalized Requirements. The ratios described above are minimum standards in order for banking organizations to be considered "adequately capitalized." Bank regulatory agencies uniformly encourage banks to hold more capital and be "well capitalized" and, to that end, federal law and regulations provide various incentives for banking organizations to maintain regulatory capital at levels in excess of minimum regulatory requirements. or example, a banking organization that is well capitalized may: (i) qualify for exemptions from prior notice or application requirements otherwise applicable to certain types of activities; (ii) qualify for expedited processing of other required notices or applications; and (iii) accept, rollover or renew brokered deposits. Higher capital levels could also be required if warranted by the particular circumstances or risk profiles of individual banking organizations. or example, the ederal Reserve's capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities, or securities trading activities. urther, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (i.e., Tier 1 Capital less all intangible assets), well above the minimum levels.

Under the capital regulations of the FDIC and Federal Reserve, in order to be well capitalized, a banking organization must maintain:

- A Common Equity Tier 1 Capital ratio to risk-weighted assets of 6.5% or more;
- A ratio of Tier 1 Capital to total risk-weighted assets of 8.0% or more;
- A ratio of Total Capital to total risk-weighted assets of 10.0% or more; and
- A leverage ratio of Tier 1 Capital to total adjusted average quarterly assets of 5.0% or greater.

It is possible under the Basel III Rule to be well capitalized while remaining out of compliance with the capital conservation buffer discussed above.

As of December 31, 2020, the Bank was not subject to a directive from the FDIC to increase its capital and was well capitalized, as defined by FDIC regulations. As of December 31, 2020, the Company had regulatory capital in excess of the Federal Reserve's requirements and met the requirements to be well capitalized. The Company is also in compliance with the capital conservation buffer.

Prompt Corrective Action. The concept of an institution being "well capitalized" is part of a regulatory enforcement regime that provides the federal banking regulators with broad power to take "prompt corrective action" to resolve the problems of depository institutions based on the capital level of each particular institution. The extent of the regulators' powers depends on whether the institution in question is "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized," in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: (i) requiring the institution to submit a capital restoration plan; (ii) limiting the institution's asset growth and restricting its activities; (iii) requiring the institution to issue additional capital stock (including additional voting stock) or to sell itself; (iv) restricting transactions between the institution and its affiliates; (v) restricting the interest rate that the institution may pay on deposits; (vi) ordering a new election of directors of the institution; (vii) requiring that senior executive officers or directors be dismissed; (viii) prohibiting the institution from accepting deposits from correspondent banks; (ix) requiring the institution to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on subordinated debt; and (xi) ultimately, appointing a receiver for the institution.

<u>Holding Company Regulation</u>

General. The Company is a registered bank holding company under the Bank Holding Company Act of 1956 (the "BHCA") and, as such, is subject to regulation, supervision and examination by the Federal Reserve. Under the BHCA, the Company is required to file with the ederal Reserve periodic reports of its operations and such additional information regarding the Company and Bank as the ederal Reserve may require. 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 ederal 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.

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

We have not filed an election with the ederal Reserve to be treated as a "financial holding company," a type of holding company that can engage in a wider range of nonbanking activities, such as 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 and to commit resources to support it in circumstances where we might not otherwise do so, in the event of the financial distress of the Bank. This provision codified the longstanding policy of the Federal Reserve. 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.

Change in Control. Federal law also prohibits any person or company from acquiring "control" of an FDIC-insured depository institution or its holding company without prior notice to the appropriate federal bank regulator. "Control" is conclusively presumed to exist upon the acquisition of 25% or more of the outstanding voting securities of a bank or bank holding company, but may arise under certain circumstances between 10% and 24.99% ownership.

Employee Incentive Compensation. Under regulatory guidance applying to all banking organizations, incentive compensation policies must be consistent with safety and soundness principles. Under this guidance, banking organizations must review their compensation programs to ensure that they: (i) provide employees with incentives that appropriately balance risk and reward and that do not encourage imprudent risk, (ii) are compatible with effective controls and risk management, and (iii) are supported by strong corporate governance, including active and effective oversight by the banking organization's board of directors. Monitoring methods and processes used by a banking organization should be commensurate with the size and complexity of the organization and its use of incentive compensation.

During 2016, as required by the Dodd-Frank Act, the federal bank regulatory agencies and the SEC proposed revised rules on incentive-based payment arrangements at specified regulated entities having at least $1 billion of total assets (including the Company and the Bank). These proposed rules have not been finalized.

<u>Regulation of Banks</u>

General. 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 DFI and the FDIC as its primary federal bank regulator. The Bank is not a member of the Federal Reserve System.

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

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

Community Reinvestment Act. Under the 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 online-driven model and nationwide banking platform, the Bank has opted to operate under a CRA Strategic Plan, which sets forth certain guidelines the Bank must meet. The Strategic Plan submitted is expected to expire on December 31, 2023. The Bank received a "Satisfactory" CRA rating in its most recent CRA examination. ailure 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.

In a joint statement responding to the COVID-19 pandemic, bank regulatory agencies announced favorable CRA consideration for banks providing retail banking services and lending activities in their assessment areas, consistent with safe and sound banking practices, that are responsive to the needs of low- and moderate-income individuals, small businesses, and small farms affected by the pandemic. Those activities include waiving certain fees, easing restrictions on out-of-state and non-customer checks, expanding credit products, increasing credit limits for creditworthy borrowers, providing alternative service options, and offering prudent payment accommodations. The joint statement also provided favorable CRA consideration for certain pandemic-related community development activities.

Transactions with Affiliates. The authority of the Bank, like other FDIC-insured institutions, to engage in transactions with its "affiliates" is limited by Sections 23A and 23B of the ederal Reserve Act and the Federal Reserve's Regulation W. An "affiliate" for this purpose is defined generally as any company that owns or controls the Bank or is under common ownership or control with the Bank, but excludes a company controlled by a bank. In general, transactions between the Bank and its affiliates must be on terms that are consistent with safe and sound banking practices and at least as favorable to the Bank as comparable transactions between the Bank and non-affiliates. In addition, covered transactions with affiliates are restricted individually to 10% and in the aggregate to 20% of the Bank's capital. Collateral ranging from 100% to 130% of the loan amount depending on the quality of the collateral must be provided for an affiliate to secure a loan or other extension of credit from the Bank. The Company is an "affiliate" of the Bank for purposes of Regulation W and Sections 23A and 23B of the Federal Reserve Act. We believe the Bank complied with these provisions during 2020.

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

Enforcement. The DFI and the FDIC share primary regulatory enforcement responsibility over the Bank and its institution-affiliated parties, 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 Company to make capital distributions, including paying dividends and repurchasing shares, depends upon our receipt of dividends from the Bank. The ability of the Bank to pay dividends is limited by state and federal laws and regulations, including the requirement for 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 ability of the Bank to pay dividends is further affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and it is generally prohibited from paying any dividends if, following payment thereof, it would be undercapitalized. Notwithstanding the availability of funds for dividends, the FDIC and the DFI may prohibit the payment of dividends by the Bank if either or both determine such payment would constitute an unsafe or unsound practice. In addition, under the Basel III Rule, institutions that seek the freedom to pay dividends have to maintain 2.5% in Common Equity Tier 1 Capital attributable to the capital conservation buffer.

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. In March 2016, the FDIC issued a final rule to increase the statutory minimum designated reserve ratio (the "DRR") from 1.15% to 1.35% by September 30, 2020, the deadline imposed by the Dodd-Frank Act. The FDIC's rules reduced assessment rates on all FDIC-insured financial institutions but imposed a surcharge on banks with assets of $10 billion or more until the DRR reached 1.35% and provided assessment credits to banks with assets of less than $10 billion for the portion of their assessments that contribute to the increase of the DRR to 1.35%. The DRR reached 1.36% as of September 30, 2018, exceeding the statutory required minimum DRR of 1.35%. As a result, the FDIC provided assessment credits to banks, like the Bank, with total consolidated assets of less than $10 billion for the portion of their regular assessments that contributed to growth in the DRR between 1.15% and 1.35%. The FDIC applied the small bank credits for quarterly assessment periods beginning July 1, 2019. However, the DRR then fell to 1.30% in 2020 as a result of extraordinary insured deposit growth caused by an unprecedented inflow of more than $1 trillion in estimated insured deposits in the first half of 2020, primarily resulting from the COVID-19 pandemic. Notwithstanding the decrease in the DRR to 1.30%, the FDIC determined not to cease the small bank credits and waived the requirement that the DRR be at least 1.35% for full remittance of the remaining assessment credits. The DIC refunded all small bank credits as of September 30, 2020. The FDIC's rules also changed the methodology used to determine risk-based assessment rates for established banks with less than $10 billion in assets to better ensure that banks taking on greater risks pay more for deposit insurance than banks that take on less risk.

FDIC insurance expense, including assessments relating to inancing Corporation (FICO) bonds, totaled $1.8 million for 2020, which included a $0.6 million small bank assessment credit.

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

Liquidity. The Bank is required to maintain a sufficient amount of liquid assets to ensure its safe and sound operation. To fund its operations, the Bank historically has relied upon deposits, Federal Home Loan Bank of Indianapolis ("FHLB") borrowings, Fed Funds lines with correspondent banks and brokered deposits. The Bank believes it has sufficient liquidity to meet its funding obligations for at least the next twelve months.

Federal Home Loan Bank System. The Bank is a member of the FHLB, which is one of the regional ederal 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, 2020 of $25.7 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. Reserve requirements are subject to annual adjustment by the Federal Reserve and, for 2020, the Federal Reserve had determined that reserves would be required in amounts equal to 3% on transaction account balances over $16.9 million and up to and including $127.5 million, plus 10% on the excess over $127.5 million. However, in March 2020, the Federal Reserve announced that the banking system had ample reserves and, as reserve requirements no longer played a significant role in this regime, it reduced all reserve tranches to zero percent, thereby freeing banks from the reserve maintenance requirement. This action permits the Bank to loan or invest funds that were previously unavailable. The ederal Reserve has indicated that it expects to continue to operate in an ample reserves regime for the foreseeable future.

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

In January 2021, the Anti-Money Laundering Act of 2020 (the "AMLA"), which amends the BSA, was enacted. The AMLA is intended to comprehensively reform and modernize U.S. anti-money laundering laws. Among other things, the AMLA codifies a risk-based approach to anti-money laundering compliance for financial institutions; requires the development of standards by the Treasury for evaluating technology and internal processes for BSA compliance; and expands enforcement- and investigation-related authority, including a significant expansion in the available sanctions for certain BSA violations. Many of the statutory provisions in the AMLA will require additional rulemakings, reports and other measures, and the impact of the AMLA will depend on, among other things, rulemaking and implementation guidance.

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, air 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. urther, the Dodd-Frank Act established 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 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. ailure to comply with consumer protection laws and regulations can subject financial institutions to enforcement actions, fines and other penalties. 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 lies with the FDIC.

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 misuse of this information is "reasonably possible."

Identity Theft Red Flags. Rules implementing Section 114 of the FACT Act 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. 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 under Section 315 of the FACT Act that provide guidance regarding reasonable policies and procedures that a user of consumer reports must employ when a consumer reporting agency sends the user a notice of address discrepancy.

Privacy. The GLBA requires financial institutions to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to nonaffiliated third parties. In general, the statute requires financial institutions to explain to consumers their policies and procedures regarding the disclosure of such nonpublic personal information and, except as otherwise required or permitted by law, financial institutions are prohibited from disclosing such information except as provided in their policies and procedures. The Bank is required to provide notice to its customers on an annual basis disclosing its policies and procedures on the sharing of nonpublic personal information. rom time to time, Congress and state legislatures consider additional legislation relating to privacy and other aspects of consumer information. We cannot predict whether such legislation will be enacted, or what impact, if any, such legislation may have on our business, financial condition or results of operations.

A number of U.S. states have also enacted data privacy and security laws and regulations that govern the collection, use, disclosure, transfer, storage, disposal and protection of personal information, such as social security numbers, financial information and other information. These laws and regulations may be more restrictive and not preempted by U.S. federal laws. For example, several U.S. territories and all 50 states now have data breach laws that require timely notification to individuals, and at times regulators, the media or credit reporting agencies, if a company has experienced the unauthorized access or acquisition of personal information. Other state laws include the California Consumer Privacy Act ("CCPA"), which was signed into law on June 28, 2018 and took effect on January 1, 2020. The CCPA, among other things, contains new disclosure obligations for businesses that collect personal information about California residents and affords those individuals numerous rights relating to their personal information that may affect our ability to use personal information or share it with our business partners. A second law called the California

Privacy Rights Act ("CPRA") passed via a ballot referendum in November 2020. The CPRA expands the scope of the CCPA, imposes new restrictions on behavioral advertising and establishes a new California Privacy Protection Agency which will enforce the law and issue regulations. Other states have considered and/or enacted similar privacy laws. We will continue to monitor and assess the impact of these state laws, which may impose substantial penalties for violations, impose significant costs for investigation and compliance, allow private class-action litigation and carry significant potential liability for our business.

Cybersecurity. In 2015, federal regulators issued two related statements regarding cybersecurity. One statement indicates that financial institutions should design multiple layers of security controls to establish lines of defense and ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing digital-based services of the financial institution. The other statement indicates that a financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption, and maintenance of the institution's operations after a cyber-attack involving destructive malware A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. If we fail to observe the regulatory guidance, we could be subject to various regulatory sanctions, including financial penalties.

State regulators have also been increasingly active in implementing privacy and cybersecurity standards and regulations. or example, several states have adopted regulations requiring certain financial institutions to implement cybersecurity programs and providing detailed requirements with respect to these programs, including data encryption requirements. Many states have also recently implemented or modified their data breach notification and data privacy requirements. We expect this trend of increased activity and changes at the state level to continue.

In 2018, the SEC published interpretive guidance to assist public companies in preparing disclosures about cybersecurity risks and incidents. These SEC guidelines, and any other regulatory guidance, are in addition to notification and disclosure requirements under state and federal banking law and regulations.

In support of our digital banking platform, we rely heavily on electronic communications and information systems to conduct our operations and store sensitive data. We employ an in-depth approach that leverages people, processes, and technology to manage and maintain cybersecurity controls. In addition, we employ a variety of preventative and detective tools to monitor, block, and provide alerts regarding suspicious activity, as well as to report on any suspected advanced persistent threats. Notwithstanding the strength of our defensive measures, the threat from cyber-attacks is severe, attacks are sophisticated and increasing in volume, and attackers respond rapidly to changes in defensive measures.

We continually strive to enhance our cyber and information security in order to be resilient against emerging threats and improve our ability to detect and respond to attempts to gain unauthorized access to our data and systems. We regularly conduct cybersecurity risk assessments, regularly engage with the Board or appropriate committees on cybersecurity matters, routinely update our incident response plans based on emerging threats, periodically practice implementation of incident response plans across applicable departments and train officers and employees to detect and report suspicious activity. Although to date we have not experienced any material losses relating to cyber-attacks or other information security breaches, our systems and those of our customers and third-party service providers are under constant threat, and it is possible that we could experience a significant event in the future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of Internet and digital banking and other technology-based products and services, by us and our consumers.

Available Information

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

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

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

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

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

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

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

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

Item 1A. Risk Factors

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

Business, Strategic, and Reputational Risks

The COVID-19 pandemic, or other such epidemic, pandemic or outbreak of a highly contagious disease, occurring in the United States or in the geographies in which we conduct operations, could adversely affect our business operations, asset valuations, financial condition and results of operations.

Our business is dependent upon the willingness and ability of our customers to conduct banking and other financial transactions. The COVID-19 pandemic, or outbreak of another highly contagious or infectious disease, could negatively impact the ability of our employees and customers to conduct such transactions and disrupt the business activities and operations of our customers in the geographic areas in which we operate. The spread of the COVID-19 virus had an impact on our operations during fiscal year 2020, and we expect that the virus will continue to have an impact on our business, financial condition and results of operations and those of our customers during 2021. The COVID-19 pandemic has caused changes in the behavior of customers, businesses and their employees, including illness, quarantines, social distancing practices, cancellation of events and travel, business and school shutdowns, reduction in commercial activity and financial transactions, supply chain interruptions increased unemployment and overall economic and financial market instability. Future effects, including additional actions taken by federal, state, and local governments to contain COVID-19 or treat its impact, are unknown. Any sustained disruption to our operations is likely to negatively impact our financial condition and results of operations. Notwithstanding our contingency and business continuity plans and other safeguards against pandemics or another contagious disease, the spread of COVID-19 could also negatively impact the availability of our personnel who are necessary to conduct our business operations, as well as potentially impact the business and operations of our third party service providers who perform critical services for us. If the response to contain COVID-19, or another highly infectious or contagious disease, is unsuccessful, we could experience a material adverse effect on our business operations, asset valuations, financial condition and results of operations. Material adverse impacts may include all or a combination of allowance for loan losses, income taxes, valuation and impairments of investment securities and goodwill, as well as fair value measurements of derivatives, loans held-for-sale and other real estate owned.

The COVID-19 pandemic has also significantly affected the financial markets and has resulted in a number of Federal Reserve actions, which have resulted in a significant decline in market interest rates. Most of our assets and liabilities are financial in nature and are sensitive to movements in market interest rates. A prolonged period of volatile and unstable market conditions will impact both the level of income and expense recorded on our assets and liabilities and the market value of all interest-earning assets and interest-bearing liabilities, which in turn could have an adverse effect on our net interest income, net interest margin and profitability.

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 digital-based operations and slow or temporarily halt the processing of applications, loan servicing, deposit-related transactions, and our general banking operations. 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.

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

Any economic downturn could result in financial stress on our borrowers that would adversely affect consumer confidence, a reduction in general business activity and increased market volatility. The resulting economic pressure on consumers and businesses and the lack of confidence in the financial markets could adversely affect our business, financial condition, results of operations and stock price. Our ability to properly assess the creditworthiness of our customers and to estimate the losses inherent in our credit exposure would be made more complex by these difficult market and economic conditions. Accordingly, if market conditions worsen, we may experience increases in foreclosures, delinquencies, write-offs and customer bankruptcies, as well as more restricted access to funds.

Significant external events could adversely affect our business and results of operations.

In addition to the COVID-19 pandemic, we could experience other external events such as severe weather, natural disasters, acts of war or terrorism or other widespread public health issues or continued circumstances that could impair the ability of our customers to repay outstanding loans; impair the value of collateral, if any, securing outstanding loans; negatively impact our deposit base, loan originations or general demand for our services; cause significant property damage; result in loss of revenue or cause us to incur additional expenses or losses. We could also be adversely affected if key personnel or a significant number of employees were to become unavailable due to external events affecting the places they live. Although we have business continuity plans and other safeguards in place, there is no assurance that such plans and safeguards will be effective in mitigating the adverse impacts of any significant external event. The occurrence or continuation of any such event could materially adversely impact our business, our ability to provide our services, demand for our services, asset quality, financial condition and results of operations.

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

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

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

We offer our residential mortgage and consumer lending as well as public finance, healthcare finance, small business lending and single tenant financing products and services throughout the United States. However, we serve CRE and C&I borrowers primarily in Central Indiana and adjacent markets. Accordingly, the performance of our CRE and C&I lending depends upon demographic and economic conditions in those regions. The profitability of our CRE and C&I loan portfolio may be impacted by changes in those conditions. Additionally, unfavorable local economic conditions could reduce or limit the growth rate of our CRE and C&I loan portfolios for a significant period of time, or otherwise decrease the ability of those borrowers to repay their loans, which could have a material adverse effect on our business, financial condition and results of operations.

We are subject to risks arising from conditions in the real estate market, as a significant portion of our loans are secured by commercial and residential real estate

At December 31, 2020, approximately 41.2% of our loans held for investment portfolio was comprised of loans with real estate as the primary component of collateral. Our real estate lending activities, and our exposure to fluctuations in real estate collateral values, are significant and may increase as our assets increase. The market value of real estate can fluctuate significantly in a relatively short period of time as a result of market conditions in the geographic area in which the real estate is located, in response to factors such as economic downturns, changes in the economic health of industries heavily concentrated in a particular area and in response to changes in market interest rates, which influence capitalization rates used to value revenue-generating commercial real estate. If the value of real estate serving as collateral for our loans declines materially, a significant part of our loan portfolio could become under-collateralized and losses incurred upon borrower defaults would increase. Conditions in certain segments of the real estate industry, including homebuilding, lot development and mortgage lending, may have an effect on values of real estate pledged as collateral for our loans. The inability of purchasers of real estate, including residential real estate, to obtain financing may weaken the financial condition of our borrowers who are dependent on the sale or refinancing of property to repay their loans. Changes in the economic health of certain industries can have a significant impact on other sectors or industries which are directly or indirectly associated with those industries, and may impact the value of real estate in areas where such industries are concentrated.

Reputational risk and social factors may negatively affect us.

Our ability to attract and retain customers is highly dependent upon other external perceptions of our business practices and financial condition. Adverse perceptions could damage our reputation to a level that could lead to difficulties in generating and maintaining lending and deposit relationships and accessing equity or credit markets, as well as increased regulatory scrutiny of our business. Adverse developments or perceptions regarding the business practices or financial condition of our competitors, or our industry as a whole, may also indirectly adversely affect our reputation.

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

Anti-takeover provisions could negatively impact our shareholders.

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

Although these provisions do not preclude a takeover, they may have the effect of discouraging, delaying or deferring a tender offer or takeover attempt that a shareholder might consider in his or her best interest, including those attempts that might result in a premium over the market price of our common stock. Such provisions will also render the removal of the

Board of Directors and of management more difficult and, therefore, may serve to perpetuate current management. These provisions could potentially adversely affect the market price of our common stock.

Credit Risks

Our commercial loan portfolio exposes us to higher credit risks than residential real estate 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 have grown our CRE, healthcare finance and small business lending loan portfolios. At December 31, 2020, CRE loans amounted to $1.2 billion, or 38.1% of total loans, healthcare finance loans amounted to $528.2 million, or 17.3% of total loans and small business lending loans amounted to $125.6 million, or 4.1% of total loans. These loans generally involve higher credit risks than residential real estate loans and are dependent upon our lenders maintaining close relationships with the borrowers. Payments on these loans are often dependent upon the successful operation and management of the underlying business or assets, and repayment of such loans may be influenced to a great extent by conditions in the market or the economy Commercial loans typically involve larger loan balances than residential real estate loans and could lead to concentration risks within our commercial loan portfolio. In addition, our C&I, healthcare finance and small business loans have primarily been extended to small to medium sized businesses that generally have fewer financial resources in terms of capital or borrowing capacity than larger entities. Our failure to manage this commercial loan growth and the related risks could have a material adverse effect on our business, financial condition and results of operations.

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

The implementation of CECL, including the design and maintenance of related internal controls over financial reporting, will require a significant amount of time and resources which may have a material impact on our results of operations.

A new accounting standard adopted by FASB, referred to as Current Expected Credit Loss, or ("CECL"), will require financial institutions, like the Bank, to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for loan and lease losses beginning with our fiscal year ending December 31, 2023. Current GAAP requires an incurred loss methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. CECL will represent a significant change in methodology and may greatly increase the types of data we will need to collect and review to determine the appropriate level of the allowance for loan and lease losses. We are in the process of evaluating the impact of the adoption of this guidance on our financial statements. However, the allowance for loan and lease losses may increase upon the adoption of CECL and any such increased allowance level would decrease shareholders' equity and the Company's and Bank's regulatory capital ratios.

A significant amount of time and resources may be needed to implement CECL effectively, including the design and implementation of adequate internal controls, which may adversely affect our results of operations. If we are unable to maintain effective internal control over financial reporting relating to CECL, or otherwise, our ability to report our financial condition and results of operations accurately and on a timely basis could also be adversely affected.

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, public finance, healthcare finance and small business lending, a substantial amount of the loans in our commercial loan portfolios and our lending relationships are of relatively recent origin. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process referred to as "seasoning." A portfolio of older loans will usually behave more predictably than a newer portfolio. As a result, because a large portion of our commercial loan portfolio is relatively new, the current level of delinquencies and defaults may not be representative of the level that will prevail when the portfolio becomes more seasoned, which may be higher than current levels. If delinquencies and defaults increase, we may be required to increase our provision for loan losses, which could have a material adverse effect on our business, financial condition and results of operations.

Our active participation in the PPP, or in other relief programs, may expose us to credit losses as well as litigation and compliance risk.

To support our customers, businesses, and communities, we have participated in the PPP as a lender. The PPP commenced on April 3, 2020 and was available to qualified borrowers through August 8, 2020. As of December 31, 2020, we had originated 447 loans with balances in excess of $50 million to new and existing customers through the PPP. Our participation in the PPP, and participation in any other relief programs now or in the future, including those under the CARES Act, exposes us to certain credit, compliance, and other risks.

Among other regulatory requirements, PPP loans are subject to forbearance of loan payments for a six-month period to the extent that loans are not eligible for forgiveness. If PPP borrowers fail to qualify for loan forgiveness, including by failing to use the funds appropriately in order to qualify for forgiveness under the program, we have a greater risk of holding these loans at unfavorable interest rates. In addition, because of the short time period between the passing of the CARES Act and the implementation of the PPP, there is ambiguity in the laws, rules, and guidance regarding the operation of the PPP, which exposes us to risks relating to noncompliance with the PPP. There is risk that the SBA or another governmental entity could conclude there is a deficiency in the manner in which we originated, funded, or serviced PPP loans, which may or may not be related to the ambiguity in the CARES Act or the rules and guidance promulgated by the SBA and the U.S. Treasury regarding the operation of the PPP. In the event of such deficiency, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already made payment under the guaranty, seek recovery of any loss related to the deficiency from us.

Since the commencement of the PPP, several other banks have been subject to litigation regarding the process and procedures that such banks followed in accepting and processing applications for the PPP. We may be exposed to the risk of similar litigation. Any financial liability, litigation costs, or reputational damage caused by PPP-related litigation could have a material adverse impact on our reputation, business, financial condition and results of operations.

In addition, we may be subject to regulatory scrutiny regarding our processing of PPP applications or our origination or servicing of PPP loans. While the SBA has said that in many instances, banks may rely on the certifications of borrowers regarding their eligibility for PPP loans, we have several obligations under the PPP, and if the SBA found that we did not meet those obligations, the remedies the SBA may seek against us, while unknown, may include not guarantying the PPP loans resulting in credit exposure to borrowers who may be unable to repay their loans. The PPP program may also attract significant interest from federal and state enforcement authorities, oversight agencies, regulators, and Congressional committees. State Attorneys General and other federal and state agencies may assert that they are not subject to the provisions of the CARES Act and the PPP regulations entitling us to rely on borrower certifications, and take more aggressive action against us for alleged violations of the provisions governing our participation in the PPP.

Market, Interest Rate, and Liquidity Risks

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

As of December 31, 2020, we had a net unrealized pre-tax holding gain of approximately $0.6 million on our $497.6 million available-for-sale investment securities portfolio. In assessing the impairment of investment securities, we consider the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuers, whether the market decline was affected by macroeconomic conditions and whether we have the intent to sell the security or will be required to sell the security before its anticipated recovery. We also use economic models to assist in the valuation of some of our investment securities. If our investment securities experience a decline in value, we would need to determine whether the decline represented an other-than-temporary impairment, in which case we would be required to record a write-down of the investment and a corresponding charge to our earnings.

An increase in interest rates, or a phase-out or replacement of London Inter-bank Offered Rate ("LIBOR") with a benchmark rate that is higher or more volatile than the LIBOR rate, could increase our cost of borrowing and could adversely impact our business, financial condition and results of operations.

In 2017, the Chief Executive of the United Kingdom inancial Conduct Authority (the "Authority"), which regulates LIBOR, announced that the Authority intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR to the ICE Benchmark Administration Limited (together with any successor, "IBA"). In response to concerns regarding the future of LIBOR, the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New

York convened the Alternative Reference Rates Committee ("ARRC") to identify alternatives to LIBOR. The ARRC has recommended a benchmark replacement waterfall to assist issuers in continued capital market entry while safeguarding against LIBOR's discontinuation. The initial steps in the ARRC's recommended provision reference variations of the Secured Overnight inancing Rate ("SOFR"). In November 2020, the IBA announced a proposal that the cessation date for the submission and publication of certain tenors of U.S. dollar denominated LIBOR (including one-, three-, six- and twelve-month LIBOR) be extended to June 30, 2023. At this time, it is not possible to predict whether SOFR will attain market traction as a LIBOR replacement, and it remains uncertain if LIBOR in applicable tenors and applicable currencies will cease to exist after calendar year 2021, or whether additional reforms to LIBOR may be enacted, or whether alternative reference rates will gain market acceptance as a replacement for LIBOR. Further, other central banks have convened working groups to determine replacements or reforms of other interest rate benchmarks, such as EURIBOR, and it is expected, although not known, that a transition away from the use of certain of these other interest rate benchmarks will occur over the course of the next few years and alternative reference rates (such as the euro short-term rate (€STR)) will be established or gain market acceptance. At this time, it is not possible to predict the effect of the Authority's announcement or other regulatory changes or announcements, any establishment of alternative reference rates, or any other reforms to LIBOR that may be enacted in the United Kingdom, the United States, or elsewhere. The uncertainty regarding the future of LIBOR as well as the transition from LIBOR to another benchmark rate or rates could have adverse impacts on floating-rate obligations, loans, deposits, derivatives, and other financial instruments that currently use LIBOR as a benchmark rate and, ultimately, adversely affect the Company's business, financial condition or results of operations.

Additionally, the floating rate features of our outstanding 6.0% Fixed-to-Floating Rate Subordinated Notes due 2026 (the "2026 Notes") and 6.0% Fixed-to-Floating Rate Subordinated Notes due 2029 (the "2029 Notes") are based on LIBOR. In anticipation of LIBOR's phase out, the terms of our 2029 Notes provide for a benchmark replacement rate for LIBOR, with such benchmark replacement rate to be determined by the Company or an independent financial advisor appointed by the Company, as applicable, in each case in accordance with terms of the 2029 Notes. Our 2026 Notes do not currently provide for a benchmark replacement rate for LIBOR. There can be no assurance that any replacement benchmark rate for our 2029 Notes or 2026 Notes will be determined or agreed upon, as applicable, before experiencing adverse effects due to changes in interest rates, if at all. We will continue to monitor the situation and address the potential reference rate changes in future debt obligations that we may incur. Accordingly, the potential effect of the phase-out, replacement or unavailability of LIBOR, or the unavailability of any other interest rate benchmark such as EURIBOR, on our cost of capital cannot yet be determined. Further, the use of an alternative base rate or a benchmark replacement rate as a basis for calculating interest with respect to any outstanding variable rate indebtedness could lead to an increase in the interest we pay and a corresponding increase in our costs of capital or otherwise have a material adverse impact on our business, financial condition or results of operations.

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

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

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.

In recent years, we have raised additional capital in the public debt and equity markets to finance our growth strategies. Our ability to raise future capital, if needed, will depend upon our financial performance and conditions in the capital markets, as well as economic conditions generally. Accordingly, such financing may not be available to us on acceptable terms or at all If we cannot raise additional capital when needed, it could have a material adverse effect on our business, financial condition and results of operations.

Operational Risks

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

The Bank conducts its deposit gathering activities and a significant portion of its residential mortgage lending activities through digital channels. 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 rely on our management team and could be adversely affected by the unexpected loss of key officers.

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

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 and lead to unauthorized disclosure of customers' personal information, theft or misuse of confidential or proprietary information, damage to our reputation, and increases in our costs or financial losses.

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

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

Third parties with whom we do business or that facilitate our business activities, including financial intermediaries or vendors that provide services or security solutions for our operations, could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints. Although to date we have not experienced any material losses relating to cyber-attacks or other information security breaches, like other companies, we and our vendors face a wide range of ongoing cyber threats that include phishing emails and social engineering schemes, ransomware threats, and criminal re-use of credentials sold on the dark web. Therefore, there can be no assurance that we will not suffer such material losses in the future. Our risk and exposure to these matters remains heightened because of the evolving nature of these threats. As a result, cybersecurity and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, company data, networks, and customer information 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, breach investigation and notification expenses, reputational damage, claims or litigation, reimbursement or other compensation costs and/or additional compliance costs, any of which could materially and adversely affect our business, financial condition and results of operations.

Legal and Regulatory Risks

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

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

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

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

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

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

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

In 2013, the FDIC and the Federal Reserve substantially amended the regulatory risk-based capital rules applicable to the Company and the Bank by implementing the “Basel III” regulatory capital reforms and changes required by the Dodd-Frank Act. The final rule included new minimum risk-based capital and leverage ratios, which became effective for the Company and the Bank in 2015, subject to a phase-in period for certain provisions. The Basel III Capital Rules were fully phased in on January 1, 2019 and require the Company and the Bank to maintain: (i) a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of 4.5%, plus a 2.5% “capital conservation buffer” (resulting in a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of 7.0%); (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of 6.0%, plus the capital conservation buffer (resulting in a minimum Tier 1 capital ratio of 8.5%); (iii) a minimum ratio of Total capital to risk-weighted assets of 8.0%, plus the capital conservation buffer (resulting in a minimum Total capital ratio of 10.5%); and (iv) a minimum Leverage Ratio of 4.0%. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that can be used for such actions.

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

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

The CRA, 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 CRA or fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition and results of operations.

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

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

We face a risk of noncompliance with and enforcement action under the BSA and other anti-money laundering statutes and regulations.

The BSA, the USA PATRIOT Act and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal inancial Crimes Enforcement Network is authorized to impose significant civil money penalties for violations of those requirements and has engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and Internal Revenue Service. We are also subject to increased scrutiny of compliance with the rules enforced by the OFAC. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans. ailure 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.

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2020, the Company owned 12.37 acres located at 11201 USA Parkway, in ishers, Indiana, including a building containing approximately 52,000 square feet of office space in which the principal executive offices of the Company and the Bank are housed.

The Bank has leased from the Company substantially all of the office space at that location.

In March 2013, the Company borrowed $4.0 million from the Bank for the purchase of the Company's principal executive offices. The principal balance of the loan was $3.0 million as of December 31, 2020 and its payment terms are interest only through the current scheduled maturity date of April 1, 2022. Refer to Note 5 to the Company's consolidated financial statements for additional discussion of the terms of this loan.

Subsequent to the end of fiscal 2020, on February 16, 2021, the Company entered into an agreement to sell this property and certain equipment currently located in the building to a third party. The sale price is $8.9 million in cash payable in full at closing. The closing remains subject to customary conditions. At December 31, 2020 the net book value of the land building and improvements was $5.4 million. We expect to use a portion of the proceeds from the sale to pay off the loan from the Bank described above. As a part of the sale agreement, the buyer has agreed to lease the office building back to the Company through December 31, 2021, with an option to extend up to 90 days beyond that date. The Bank is expected to continue to sublease substantially all of the office space for the duration of the leaseback arrangement.

The Bank's subsidiary, SPF15, Inc., owns several parcels consisting of 2.4 acres located in Fishers, Indiana. Site demolition was completed in early 2020 and construction of a multi-use development, to include the future headquarters of the Company and the Bank is ongoing. Development of the site is estimated to be substantially complete in the fourth quarter 2021.

Item 3. Legal Proceedings

Neither we nor any of our subsidiaries are party to any material legal proceedings. From time to time, the Bank is a party to legal actions arising from its normal business activities.

Item 4. Mine Safety Disclosures

None.

PART II

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

Market Information

The Company's common stock trades on the Nasdaq Global Select Market under the symbol "INBK."

As of March 5, 2021, the Company had 9,823,231 shares of common stock issued and outstanding, and there were 113 holders of record of common stock.

Dividends

The Company began paying regular quarterly cash dividends in 2013. Total dividends declared in 2020 were $0.24 per share. The Company expects to continue to pay cash dividends on a quarterly basis; however, the declaration and amount of any future cash dividends will be subject to the sole discretion of the Board of Directors and will depend upon many factors, including our results of operations, financial condition, capital requirements, regulatory and contractual restrictions (including with respect to the Company's outstanding subordinated debt), business strategy and other factors deemed relevant by the Board of Directors.

Because the Company is a holding company and does not engage directly in business activities of a material nature, its ability to pay dividends to shareholders may depend, in large part, upon the receipt of distributions from the Bank, which is also subject to numerous limitations on the payment of dividends under federal and state banking laws, regulations and policies. The present and future ability of the Bank to distribute funds to the Company are subject to the discretion of the Board of the Directors of the Bank and the Bank is not obligated to pay any distributions to the Company.

Item 6. Selected Financial Data

Selected inancial Data for this Item is not required. Information regarding the Company's financial condition, results of operations and ratios can be found in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this Form 10-K.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this report.

The following discussion, analysis and comparisons generally focus on the operating results for the years ended December , 2020 and 2019. Discussion, analysis and comparisons of the years ended December , 2019 and 2018 that are not included in this Form 10-K can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of the Company's Annual Report on Form 10-K for the year ended December , 2019. 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.

Impact of the COVID-19 Pandemic

The year 2020 was characterized by continued uncertainty as the coronavirus ("COVID-19") pandemic persisted globally, resulting in high unemployment and market volatility. However, federal, state and local governments have taken steps to reopen and stimulate economies, evidenced by improving economic indicators as the fourth quarter 2020 progressed. While the effects of COVID-19 did have an impact on our operating results as of December 31, 2020, we believe the impact was consistent with the effects of COVID-19 on the overall banking industry. The low interest rate environment following Federal Reserve rate cuts in the first quarter 2020 had a negative impact on our variable rate assets throughout 2020. However, the low interest rate environment has also allowed us to reprice our interest-bearing deposits at lower rates, which provided a benefit to net interest income in 2020. The benefit from lower deposit pricing is expected to continue into 2021. Additionally, the low interest rate environment has driven residential mortgage rates to historically low levels, which has resulted in increased mortgage originations and has benefited our residential mortgage business.

At this time, the ultimate impact of COVID-19 on our business continues to remain uncertain as we cannot predict the duration of the pandemic or when the economies in which we operate will return to conditions existing prior to COVID-19. As a result of continued measures to either contain or reduce the impact of COVID-19, or an increase in the number of reported cases or mortality rates, we may experience issues that negatively impact our business, such as a decline in the liquidity of our borrowers or volatility in interest rates.

As a digitally-focused institution without branch locations, we were able to continue serving clients when they needed us most, while minimizing operational disruptions caused by COVID-19. Beginning in the first quarter 2020, we offered loan payment deferral programs for clients affected by COVID-19. Loan balances on payment deferral programs peaked in late May 2020 but as of December 31, 2020, less than 1% of loan balances were in deferral status and all borrowers coming off deferrals had resumed normal payment schedules. Despite the challenging environment, we have continued to prudently extend credit to both commercial and consumer clients.

Results of Operations

During the twelve months ended December 31, 2020, net income was $29.5 million, or $2.99 per diluted share, compared to net income of $25.2 million, or $2.51 per diluted share, for the twelve months ended December 31, 2019 and net income of $21.9 million, or $2.30 per diluted share, for the twelve months ended December 31, 2018.

The $4.2 million increase in net income for the twelve months ended December 31, 2020 compared to the twelve months ended December 31, 2019 was due primarily to a $19.5 million increase in noninterest income and a $1.6 million increase in net interest income, but was partially offset by an $11.0 million increase in noninterest expense, a $3.4 million increase in provision for loan losses and a $2.5 million increase in income tax expense.

The increase in net income of $3.3 million for the twelve months ended December 31, 2019 compared to the twelve months ended December 31, 2018 was due primarily to a $8.0 million increase in noninterest income, a $0.7 million increase in net interest income and a $0.1 million decrease in income tax expense, but was partially offset by a $3.5 million increase in noninterest expense and $2.1 million increase in provision for loan losses.

During the twelve months ended December 31, 2020, return on average assets was 0.69%, compared to 0.65% for the twelve months ended December 31, 2019. During the twelve months ended December 31, 2020, return on average shareholders' equity was 9.39%, compared to 8.52% for the twelve months ended December 31, 2019. Additionally, for the twelve months ended December 31, 2020, return on average tangible common equity was 9.53% compared to 8.65% for the twelve months ended December 31, 2019. These profitability ratios improved during 2020 as net income growth of 16.7% outpaced total average balance sheet growth of 9.6%, as well as average shareholders' equity growth of 5.9% and average tangible common equity growth of 6.0%. Refer to the "Reconciliation of Non-GAAP Financial Measures" section of Item 7 of Part II of this report, Management's Discussion and Analysis of inancial Condition and Results of Operations for additional information.

Consolidated Average Balance Sheets and Net Interest Income Analyses

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

	Twelve Months Ended								
	December 31, 2020			December 31, 2019			December 31, 2018		
(dollars in thousands)	Average Balance	Interest/ Dividends	Yield/ Cost	Average Balance	Interest/ Dividends	Yield/ Cost	Average Balance	Interest/ Dividends	Yield/ Cost
Assets									
Interest-earning assets									
Loans, including loans held-for-sale	$3,025,989	$ 120,628	3.99 %	$2,894,174	$ 122,228	4.22 %	$2,382,504	$ 99,082	4.16 %
Securities - taxable	530,849	11,123	2.10 %	462,704	13,807	2.98 %	391,958	10,630	2.71 %
Securities - non-taxable	95,173	1,728	1.82 %	97,613	2,595	2.66 %	94,072	2,810	2.99 %
Other earning assets	523,788	3,380	0.65 %	355,412	8,784	2.47 %	116,074	2,945	2.54 %
Total interest-earning assets	4,175,799	136,859	3.28 %	3,809,903	147,414	3.87 %	2,984,608	115,467	3.87 %
Allowance for loan losses	(24,660)			(19,891)			(16,097)		
Noninterest earning-assets	112,659			100,696			86,713		
Total assets	$4,263,798			$3,890,708			$3,055,224		
Liabilities									
Interest-bearing liabilities									
Interest-bearing demand deposits	$ 145,207	$ 840	0.58 %	$ 118,874	$ 882	0.74 %	$ 90,229	$ 583	0.65 %
Savings accounts	40,593	303	0.75 %	35,751	398	1.11 %	51,333	585	1.14 %
Money market accounts	1,156,084	11,381	0.98 %	637,360	12,661	1.99 %	544,802	8,803	1.62 %
Certificates and brokered deposits	1,882,773	43,452	2.31 %	2,146,637	55,372	2.58 %	1,585,673	32,513	2.05 %
Total interest-bearing deposits	3,224,657	55,976	1.74 %	2,938 622	69,313	2.36 %	2,272,037	42,484	1.87 %
Other borrowed funds	586,372	16,342	2.79 %	564,757	15,134	2.68 %	468,411	10,716	2.29 %
Total interest-bearing liabilities	3,811,029	72,318	1.90 %	3,503,379	84,447	2.41 %	2,740,448	53,200	1.94 %
Noninterest-bearing deposits	74,277			44,682			45,562		
Other noninterest-bearing liabilities	64,729			46,265			9,798		
Total liabilities	3,950,035			3,594,326			2,795,808		
Shareholders' equity	313,763			296,382			259,416		
Total liabilities and shareholders' equity	$4,263,798			$3,890,708			$3,055,224		
Net interest income		$ 64,541			$ 62,967			$ 62,267	
Interest rate spread[1]			1.38 %			1.46 %			1.93 %
Net interest margin[2]			1.55 %			1.65 %			2.09 %
Net interest margin - FTE[3]			1.68 %			1.82 %			2.25 %

[1] Yield on total interest-earning assets minus cost of total interest-bearing liabilities
[2] Net interest income divided by average interest-earning assets
[3] On a fully-taxable equivalent ("FTE") basis assuming a 21% tax rate. Refer to the "Reconciliation of Non-GAAP Financial Measures" section of Item 7 of Part II of this report, Management's Discussion and Analysis of Financial Condition and Results of Operations

Rate/Volume Analysis

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

	Rate/Volume Analysis of Net Interest Income					
	Twelve Months Ended December 31, 2020 vs. December 31, 2019 Due to Changes in			Twelve Months Ended December 31, 2019 vs. December 31, 2018 Due to Changes in		
(amounts in thousands)	Volume	Rate	Net	Volume	Rate	Net
Interest income						
Loans, including loans held-for-sale	$ 5,333	$ (6,933)	$ (1,600)	$ 21,689	$ 1,457	$ 23,146
Securities – taxable	1,817	(4,501)	(2,684)	2,047	1,130	3,177
Securities – non-taxable	(64)	(803)	(867)	103	(318)	(215)
Other earning assets	2,948	(8,352)	(5,404)	5,922	(83)	5,839
Total	10,034	(20,589)	(10,555)	29,761	2,186	31,947
Interest expense						
Interest-bearing deposits	6,245	(19,582)	(13,337)	14,172	12 657	26,829
Other borrowed funds	583	625	1,208	2,417	2,001	4,418
Total	6,828	(18,957)	(12,129)	16,589	14,658	31,247
Increase (decrease) in net interest income	$ 3,206	$ (1,632)	$ 1 574	$ 13,172	$ (12,472)	$ 700

v. 9

Net interest income for the twelve months ended December 31, 2020 was $64.5 million, an increase of $1.6 million, or 2.5%, compared to $63.0 million for the twelve months ended December 31, 2019. The increase in net interest income was the result of a $12.1 million, or 14.4%, decrease in total interest expense to $72.3 million for the twelve months ended December 31, 2020 compared to $84.4 million for the twelve months ended December 31, 2019. This decrease in total interest expense was partially offset by a $10.6 million, or 7.2%, decrease in total interest income to $136.9 million for the twelve months ended December 31, 2020 compared to $147.4 million for the twelve months ended December 31, 2019.

The decrease in total interest expense was driven primarily by a decrease in interest expense related to certificates and brokered deposits and money market accounts. Interest expense on certificates and brokered deposits decreased $11.9 million, or 21.5%, due to a decline of 27 bps in the cost of these deposits as well as a $263.9 million, or 12.3%, decrease in the average balance of these deposits. The decrease in certificates and brokered deposit balances was driven by the Company's pricing strategy to reduce the level of these higher cost deposits. The decrease in interest expense related to money market accounts of $1.3 million, or 10.1%, was driven by a decline of 101 bps in the cost of these deposits, partially offset by an increase of $518.7 million, or 81.4%, in the average balance of these deposits. Money market balances increased throughout 2020 due to targeted digital marketing efforts to grow small business accounts, as well as consumers, small businesses and commercial clients increasing their cash balances due in part to the economic uncertainty resulting from COVID-19.

The decrease in total interest income was due primarily to a decrease in interest earned on loans, including loans held-for-sale, other earning assets and securities. Interest income earned on other earning assets decreased $5.4 million, or 61.5% due to a decline of 182 bps in the yield earned on these assets, partially offset by an increase of $168.4 million, or 47.4%, in the average balance of other earning assets. The increase in the average balance of other earning assets was due to higher cash balances driven by growth in the average balance of deposits. Interest income earned on securities decreased $3.6 million, or 21.6%, due to a decline of 87 bps in the yield earned on securities, partially offset by an increase of $65.7 million, or 11.7%, in the average balance of securities. The increase in average securities balances was due to deployment of liquidity driven by deposit growth. Interest income earned on loans, including loans held-for-sale, decreased by $1.6 million as the yield on the loan portfolio decreased by 23 bps, but was partially offset by an increase of $131.8 million, or 4.6%, in the average balance of loans. The increase in average loan balances was due to growth in the healthcare finance portfolio, small business lending portfolio (which included loans acquired from irst Colorado National Bank in late 2019, as well as loans originated through the Paycheck Protection Program ("PPP")) and increased construction lending, but was partially offset by decreases in the residential mortgage, public finance and single tenant lease financing portfolios.

Net interest margin was 1.55% for the twelve months ended December 31, 2020 compared to 1.65% for the twelve months ended December 31, 2019. The decrease in net interest margin was due primarily to a 59 bp decrease in the yield earned on interest-earning assets, but was partially offset by a 51 bp decrease in the cost of interest-bearing liabilities. The decline in the yield earned on interest-earning assets and the decline in the cost of interest-bearing liabilities was due primarily to the continued decrease in market interest rates from the year-ago period. Interest rates began declining during 2019 and declined significantly in 2020 following Federal Reserve interest rate cuts in March 2020 in response to the economic effects of COVID-19. During this time, variable rate assets tied to market interest rates repriced faster than deposits. However, as the pace of short-term market interest rate declines slowed over the course of 2020, the Company believes that yields on interest-earning assets have largely stabilized. Furthermore, the Company has approximately $917.0 million of certificates and brokered deposits with a weighted average cost of 1.87% that mature over the next twelve months. As the weighted average of cost of these deposits is significantly higher than current new production costs, the Company expects the cost of deposit funding to continue to decline in 2021.

Noninterest Income

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

	Twelve Months Ended December 31,				
(amounts in thousands)		9	18	17	16
Service charges and fees	$ 824	$ 885	$ 934	$ 888	$ 818
Loan servicing revenue	1,159	166	—	—	—
Loan servicing asset revaluation	(432)	—	—	—	—
Mortgage banking activities	24,693	11,541	5,718	7,836	12,398
Gain on sale of loans	8,298	2,074	503	395	—
Gain (loss) on sale of securities	139	(458)	—	(8)	—
Other	1,655	2,581	1,605	1,430	861
Total noninterest income	$ 36,336	$ 16,789	$ 8,760	$ 10,541	$ 14,077

v. 9

During the twelve months ended December 31, 2020, noninterest income totaled $36.3 million, representing an increase of $19.5 million, or 116.4%, compared to $16.8 million for the twelve months ended December 31, 2019. The increase in noninterest income was driven primarily by an increase in revenue from mortgage banking activities, gain on sale of loans, loan servicing revenue and gain on sale of securities, which were partially offset by lower other income and loan servicing asset revaluation. The increase in mortgage banking revenue was due mainly to an increase in loan origination volume, driven by historically low mortgage interest rates, and higher gain-on-sale margins. The increase in gain on sale of loans was due to gains of $6.8 million being recognized on sales of SBA 7(a) guaranteed loans and sales of portfolio loans with book values totaling $224.1 million that resulted in a gain of $1.5 million during the twelve months ended December 31, 2020, compared to the Company recognizing gains of $1.7 million on the sale of SBA 7(a) guaranteed loans and selling portfolio loans with book values of $264.7 million that resulted in a net gain of $0.4 million during the twelve months ended December 31, 2019. The Company recognized $0.7 million of loan servicing revenue, net of the loan servicing asset revaluation, in 2020, in connection with its SBA 7(a) servicing portfolio, which includes the portfolio acquired in the fourth quarter 2019 as well as loans originated by the Company in 2020. The increase in gain on sale of securities was due to a gain of $0.1 million being recorded during the twelve months ended December 31, 2020 compared to the twelve months ended December 31, 2019 when the Company sold lower-yielding mortgage-backed and U.S. Government Agency securities that resulted in a loss of $0.5 million. The decrease in other noninterest income was mainly the result of income recognized in the prior year associated with the sale of the Company’s Visa Class B shares at a gain of $0.5 million and $0.4 million of income related to the Company’s temporary ownership of the land associated with its future corporate headquarters. Refer to Note 16 to the Company's consolidated financial statements for additional information about the Company’s new headquarters.

Noninterest Expense

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

	Twelve Months Ended December 31,				
(amounts in thousands)		9	18	17	16
Salaries and employee benefits	$ 34,231	$ 27,014	$ 23,174	$ 21,164	$ 17,387
Marketing, advertising and promotion	1,654	1,800	2,468	2,393	1,823
Consulting and professional services	3,511	3,669	3,055	3,091	3,143
Data processing	1,528	1,338	1,233	971	1,127
Loan expenses	2,036	1,142	942	1,027	891
Premises and equipment	6,396	6,059	4,996	4,183	3,699
Deposit insurance premium	1,810	1,903	1,956	1,410	1,159
Write-down of other real estate owned	2,065	—	2,423	—	—
Other	4,423	3,709	2,936	2,484	2,222
Total noninterest expense	$ 57,654	$ 46,634	$ 43,183	$ 36,723	$ 31,451

v. 9

Noninterest expense for the twelve months ended December 31, 2020 was $57.7 million, compared to $46.6 million for the twelve months ended December 31, 2019. The increase of $11.0 million, or 23.6%, compared to the twelve months ended December 31, 2019 was due primarily to a $7.2 million increase in salaries and employee benefits, a $2.1 million write-down of a legacy commercial OREO property, a $0.9 million increase in loan expenses, a $0.7 million increase in other expenses and a $0.3 million increase in premises and equipment. The increase in salaries and employee benefits was primarily the result of personnel growth, mostly associated with the Company’s small business lending platform, as well as increased mortgage and small business lending incentive compensation. The increase in loan expenses was driven primarily by costs associated with nonperforming loans. The increase in other expenses was due primarily to a $0.3 million charitable contribution the Company made to assist small businesses and nonprofits address the economic challenges of the COVID-19 pandemic, as well as various other miscellaneous expenses, none of which were individually significant. The increase in premises and equipment was due primarily to higher software expense.

Income Taxes

The following table reconciles reported income tax expense to that computed at the statutory federal tax rate for the five most recent years.

	Twelve Months Ended December 31,				
(amounts in thousands)		9	18	17	16
Statutory rate times pre-tax income	$ 7,119	$ 5,703	$ 5,030	$ 8,025	$ 6,115
(Subtract) add the tax effect of:					
Income from tax-exempt securities and loans	(4,464)	(4,881)	(3,833)	(2,512)	(635)
State income taxes, net of federal tax effect	1,765	1,285	1,164	693	567
Bank-owned life insurance	(200)	(198)	(200)	(318)	(159)
Net deferred tax asset revaluation	—	—	—	1,846	—
Tax credits	(178)	(181)	(180)	—	—
Other differences	403	189	71	(32)	23
Income tax expense	$ 4,445	$ 1,917	$ 2,052	$ 7,702	$ 5,911

v. 9

The Company recognized income tax expense of $4.4 million in 2020, resulting in an effective tax rate of 13.1%, compared to $1.9 million and an effective tax rate of 7.1% in 2019. The Company's federal statutory tax rate was 21% in 2020 and 2019. In both 2020 and 2019, the variance from the federal statutory rate was due primarily to tax-exempt income, partially offset by state income taxes. Interest income on certain loans or securities issued by governmental, municipal and not-for-profit entities, and earnings from bank-owned life insurance were the primary components of tax-exempt income. The increase in the effective tax rate and income tax expense was primarily due to the increase in pre-tax earnings driven by a higher proportion of taxable revenue, including higher mortgage banking revenue and gain on sale of loans.

Financial Condition

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

(amounts in thousands)	December 31,				
Balance Sheet Data:		**9**	**8**	**7**	**6**
Total assets	$ 4,246,156	$ 4,100,083	$ 3,541,692	$ 2,767,687	$ 1 854,335
Loans	3,059,231	2,963,547	2,716,228	2,091,193	1,250,789
Total securities	565,851	602,730	504,095	492,484	473,371
Loans held-for-sale	39,584	56,097	18,328	51,407	27,101
Noninterest-bearing deposits	96,753	57,115	43,301	44,686	31 166
Interest-bearing deposits	3,174,132	3,096,848	2,628,050	2,040,255	1,431,701
Total deposits	3,270,885	3,153,963	2,671,351	2,084,941	1,462,867
Advances from Federal Home Loan Bank	514,916	514,910	525,153	410,176	189,981
Total shareholders' equity	330,944	304,913	288,735	224,127	153,942

Total assets increased $146.1 million, or 3.6%, to $4.2 billion as of December 31, 2020 as compared to $4.1 billion as of December 31, 2019. Balance sheet growth was driven primarily by an increase in deposits of $116.9 million, or 3.7%. Additionally, the increase in deposits was used to fund loan growth as loan balances increased $95.7 million, or 3.2%. As deposit growth outpaced loan growth, balance sheet liquidity increased as the combined balance of cash and securities increased $55.6 million, or 6.0%, and the percentage of loans declined modestly to 93.5% as of December 31, 2020 from 94.0% as of December 31, 2019.

As of December 31, 2020, total shareholders' equity was $330.9 million, an increase of $26.0 million, or 8.5%, compared to December 31, 2019, due primarily to the net income earned during the year, partially offset by the increase in accumulated other comprehensive loss. Tangible common equity totaled $326.3 million as of December 31, 2020, representing an increase of $26.0 million, or 8.7%, compared to December 31, 2019. As the growth in both total shareholders' equity and tangible common equity outpaced growth of 3.6% in both total assets and tangible assets, the ratio of total shareholders' equity to total assets increased to 7.79% as of December 31, 2020 from 7.44% as of December 31, 2019 and the ratio of tangible common equity to tangible assets increased to 7.69% as of December 31, 2010 from 7.33% as of December 31, 2019.

Book value per common share increased 7.9% to $33.77 as of December 30, 2020 from $31.30 as of December 31, 2019. Tangible book value per share increased 8.0% to $33.29 as of December 31, 2020 from $30.82 as of December 31, 2019. The growth in both book value per common share and tangible book value per share reflects the growth in total shareholders' equity and tangible common equity while total common shares outstanding increased slightly year-over-year, or 0.6%. Refer to the "Reconciliation of Non-GAAP Financial Measures" section of Item 7 of Part II of this report, Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information.

Loan Portfolio Analysis

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

	December 31,									
(dollars in thousands)			9		8		7		6	
Commercial loans										
Commercial and industrial	$ 75,387	2.5 %	$ 96,420	3.3 %	$ 107,405	4.0 %	$ 121,966	5.8 %	$ 101,326	8.1 %
Owner-occupied commercial real estate	89,785	2.9 %	86,726	2.9 %	77,569	2.9 %	71,872	3.4 %	55,637	4.4 %
Investor commercial real estate	13,902	0.5 %	12,567	0.4 %	5,391	0.2 %	7,273	0.4 %	13 181	1.0 %
Construction	110,385	3.6 %	60,274	2.0 %	39,916	1.5 %	49,213	2.4 %	53,291	4.3 %
Single tenant lease financing	950,172	31.1 %	995,879	33.6 %	919,440	33.8 %	803,299	38.5 %	606,568	48.5 %
Public finance	622,257	20.3 %	687,094	23.2 %	706,342	26.0 %	438,341	21.0 %	—	0.0 %
Healthcare finance	528,154	17.3 %	300,612	10.1 %	117,007	4.4 %	31,573	1.5 %	—	0.0 %
Small business lending	125,589	4.1 %	46,945	1.6 %	17,370	0.5 %	4,870	0.2 %	3,142	0.3 %
Total commercial loans	2,515,631	82.3 %	2,286,517	77.1 %	1,990,440	73.3 %	1,528,407	73.2 %	833,145	66.6 %
Consumer loans										
Residential mortgage	186,787	6.1 %	313,849	10.6 %	399,898	14.7 %	299,935	14.3 %	205,554	16.4 %
Home equity	19,857	0.6 %	24,306	0.8 %	28,735	1.1 %	30,554	1.5 %	35,036	2.8 %
Other consumer	275,692	9.0 %	295,309	10.0 %	279,771	10.3 %	227,533	10.8 %	173,449	13.9 %
Total consumer loans	482,336	15.7 %	633,464	21.4 %	708,404	26.1 %	558,022	26.6 %	414,039	33.1 %
Total commercial and consumer loans	2,997,967	98.0 %	2,919,981	98.5 %	2,698,844	99.4 %	2,086,429	99.8 %	1,247,184	99.7 %
Net deferred loan origination costs and premiums and discounts on purchased loans and other [(1)]	61,264	2.0 %	43,566	1.5 %	17,384	0.6 %	4,764	0.2 %	3,605	0.3 %
Total loans	3,059,231	100.0 %	2,963,547	100.0 %	2,716,228	100.0 %	2,091,193	100.0 %	1,250,789	100.0 %
Allowance for loan losses	(29,484)		(21,840)		(17,896)		(14,970)		(10,981)	
Net loans	$3,029,747		$2,941,707		$2,698,332		$2,076,223		$1,239,808	

[1] Includes carrying value adjustments of $42.7 million related to terminated interest rate swaps associated with public finance loans as of December 31, 2020 and $21.4 million, $5.0 million, $0.3 million, and $0.0 million as of December 31, 2019, 2018, 2017 and 2016, respectively, related to interest rate swaps associated with public finance loans.

Total loans were $3.1 billion as of December 31, 2020, an increase of $95.7 million, or 3.2%, compared to December 31, 2019. Growth in commercial loan balances of $229.1 million, or 10.0%, was partially offset by a decline of $151.1 million or 23.9%, in consumer loan balances. The growth in commercial loan balances was driven primarily by increased production in healthcare finance, small business lending and construction, which was partially offset by lower balances in the public finance and single tenant lease financing loan portfolios, due primarily to sales of $106.6 million of loans in these categories during 2020, as well as a decline in commercial and industrial balances. The growth in healthcare finance balances was due primarily to a combination of strong borrower demand following the re-opening of state and local economies across the U.S. subsequent to shelter-in-place orders in response to COVID-19 and growth in the sales team at Provide, Inc. (formerly known as Lendeavor, Inc.), the Company's origination partner in this loan category. The growth in small business lending was driven by $58.3 million of PPP loan balances originated during 2020, as well as an increase in originated SBA 7(a) loans during 2020. The growth in construction balances was due to focused efforts to increase borrower relationships in the Central Indiana market, as well as expand relationships with existing clients. The decrease in consumer loan balances was due primarily to the sale of $90.8 million of portfolio mortgage loans in the first quarter 2020. Additionally, the balances of residential mortgage loans and other consumer loans were impacted by elevated prepayment activity, which more than offset new origination activity.

Loan Maturities and Rate Sensitivity

The following table shows the contractual maturity distribution intervals (without regard to repayment schedules) of the outstanding loans in our portfolio as of December 31, 2020.

(amounts in thousands)	**Within 1 Year**	**-3 Years**	**4-5 Years**	**Beyond 5 Years**	**Total**
Commercial loans					
Commercial and industrial	$ 13,560	$ 18,773	$ 15,751	$ 27,303	$ 75,387
Owner-occupied commercial real estate	6,484	23,375	6,731	53,195	89,785
Investor commercial real estate	3,000	8,365	629	1,908	13,902
Construction	42,070	47,139	14,137	7,039	110,385
Single tenant lease financing	52,832	94,472	177,912	624,956	950,172
Public finance	31,210	15,662	3,437	571,948	622,257
Healthcare finance	430	56	2,908	524,760	528,154
Small business lending	5	51,573	2,598	71,413	125,589
Total commercial loans	149,591	259,415	224,103	1,882,522	2 515,631
Consumer loans					
Residential mortgage	1,592	1,659	293	183,243	186,787
Home equity	31	3,555	321	15,950	19,857
Other consumer	1,837	6,388	12,108	255,359	275,692
Total consumer loans	3,460	11,602	12,722	454,552	482,336
Total commercial and consumer loans	$ 153,051	$ 271,017	$ 236,825	$ 2,337,074	$ 2,997,967

The following table shows the rate sensitivity of the outstanding loans in our portfolio by the contractual maturity distribution intervals as of December 31, 2020.

(amounts in thousands)	**Within 1 Year**	**-3 Years**	**4-5 Years**	**Beyond 5 Years**	**Total**
Predetermined rates	$ 91,349	$ 206,317	$ 215,690	$ 2,121,641	$ 2 634,997
Adjustable rate	61,702	64,700	21,135	215,433	362,970
Total commercial and consumer loans	$ 153,051	$ 271,017	$ 236,825	$ 2,337,074	$ 2,997,967

Loan Approval Procedures and Authority

Our lending activities follow written, non-discriminatory policies with loan approval limits approved by the Board of Directors of the Bank. Loan officers have underwriting and approval authorization of varying amounts based on their lending experience and product type. Additionally, based on the amount of the loan, multiple approvals may be required. Based on the Bank's legal lending limit, the maximum it could lend to any one borrower at December 31, 2020 was $58.8 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 independent third-party loan review groups, which are a key component of our overall risk management process related to credit administration.

Asset Quality

	December 31,				
(dollars in thousands)		9	8	7	6
Nonaccrual loans					
Commercial loans:					
Commercial and industrial	$ —	$ 226	$ 195	$ —	$ —
Owner-occupied commercial real estate	1,838	464	325	—	—
Single tenant lease financing	7,116	4,680	—	—	—
Total commercial loans	8,954	5,370	520	—	—
Consumer loans:					
Residential mortgage	1,183	761	175	724	1,024
Home equity	—	—	55	83	—
Other consumer	46	33	42	32	59
Total consumer loans	1,229	794	272	839	1,083
Total nonaccrual loans	10,183	6,164	792	839	1,083
Past Due 90 days and accruing loans					
Consumer loans:					
Residential mortgage	—	416	97	—	—
Total consumer loans	—	416	97	—	—
Total past due 90 days and accruing loans	—	416	97	—	—
Total nonperforming loans	10,183	6,580	889	839	1,083
Other real estate owned					
Investor commercial real estate	—	2,065	2,066	4,488	4,488
Residential mortgage	—	—	553	553	45
Total other real estate owned	—	2,065	2,619	5,041	4,533
Other nonperforming assets	35	75	—	12	85
Total nonperforming assets	$ 10,218	$ 8,720	$ 3,508	$ 5,892	$ 5,701
Total nonperforming loans to total loans	0.33 %	0.23 %	0.03 %	0.04 %	0.09 %
Total nonperforming assets to total assets	0.22 %	0.22 %	0.10 %	0.21 %	0.31 %

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

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

Nonperforming loans are comprised of total nonaccrual loans and loans 90 days past due and accruing. Nonperforming assets include nonperforming loans, other real estate owned and other nonperforming assets, which consist of repossessed assets. Nonperforming assets can also include investments that were classified as other-than-temporarily impaired; however, we did not own any investments classified as such during the five-year period ended December 31, 2020.

Troubled Debt Restructurings

	December 31,				
(amounts in thousands)		9	18	17	16
Troubled debt restructurings – nonaccrual	$ 2,637	$ 94	$ —	$ —	$ —
Troubled debt restructurings – performing	367	427	410	473	757
Total troubled debt restructurings	$ 3,004	$ 521	$ 410	$ 473	$ 757

The increase in nonperforming loans of $3.6 million, or 54.8%, to $10.2 million as of December 31, 2020 compared to $6.6 million as of December 31, 2019 was due primarily to an increase in nonperforming single tenant lease financing loans with unpaid principal balances of $2.5 million and an increase in nonperforming owner-occupied commercial real estate loans with unpaid principal balances of $1.6 million that were placed on nonaccrual status during 2020, partially offset by a $0.4 million decrease in accruing residential mortgage loans that were 90 days past due and one nonaccrual owner-occupied commercial real estate loan that paid off in full during 2020. Total nonperforming assets increased $1.5 million, or 17.2%, as of December 31, 2020 compared to December 31, 2019, due primarily to the increase in nonperforming loans discussed above, partially offset by a $2.1 million write-down of a legacy commercial OREO property in 2020. The ratio of nonperforming loans to total loans increased to 0.33% as of December 31, 2020 compared to 0.23% as of December 31, 2019 and the ratio of nonperforming assets to total assets remained 0.22% as of December 31, 2020, consistent with 0.22% as of December 31, 2019.

Total TDRs as of December 31, 2020 were $3.0 million, up $2.5 million from December 31, 2019. The increase was driven by one residential mortgage loan that became a TDR during the second quarter 2020 and one loan relationship in the owner-occupied real estate category that became a TDR during the fourth quarter 2020.

As of December 31, 2019, the Company had one commercial property in OREO with a carrying value of $2.1 million which was written-off during 2020. The property consisted of two buildings that were residential units adjacent to a university campus. The Company did not have any OREO as of December 31, 2020.

As of December 31, 2020, our financial results have reflected little impact on asset quality to date as a result of COVID-19. However, the ultimate impact the pandemic may have on our business and asset quality is still uncertain. We remain optimistic that the combination of government stimulus programs and the relief programs we have provided to our clients will lessen the economic stress on our borrowers. However, if the effects of the pandemic extend for a prolonged period of time, we may experience negative trends in nonperforming loans and assets.

Non-TDR Loan Modifications due to COVID-19

The "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus" was issued by our banking regulators on March 22, 2020. This guidance encourages financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations due to the effects of COVID-19.

Additionally, Section 4013 of the CARES Act further provides that loan modifications due to the impact of COVID-19 that would otherwise be classified as TDRs under GAAP will not be so classified. Modifications within the scope of this relief are in effect from the period beginning March 1, 2020 until January 1, 2022, or 60 days after the date on which the national emergency related to the COVID-19 pandemic formally terminates.

In accordance with this guidance, the Company offered modifications to borrowers who were both impacted by COVID-19 and current on all principal and interest payments. As of December 31, 2020, the Company had $11.9 million in non-TDR loan modifications due to COVID-19.

U.S. Small Business Administration Paycheck Protection Program

Section 1102 of the CARES Act created the PPP, which is jointly administered by the SBA and the Department of the Treasury. The PPP is designed to provide economic relief to small businesses nationwide adversely impacted by COVID-19. On December 27, 2020, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act was enacted, extending the authority to continue to make PPP loans, including a provision for second draw PPP loans, through March 31, 2021. These loans may be 100% forgiven if certain conditions, including predefined SBA approved use of the funds and certain borrower certifications are satisfied and are fully guaranteed by the SBA. As a preferred SBA lender, we assisted our clients in participating in the PPP to help them maintain their workforces in an uncertain and challenging environment. The loans originated by us during 2020 bear an interest rate of 1.00% and we received weighted average origination fees of 3.86% of the amount funded, or approximately $2.3 million in total. The Company received this fee revenue from the SBA in late June 2020 and it is being deferred over the life of the PPP loans and recognized as interest income. As of December 31, 2020, we had 376 PPP loans totaling $50.6 million outstanding. As of December 31, 2020, the Company processed 84 applications for forgiveness from PPP borrowers.

On December 27, 2020, additional funding was allocated to the PPP through the passage of the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act. The additional funding can be used by small businesses who have yet to receive a PPP loan as well as certain small businesses who may be eligible to receive a second PPP loan. The Company began offering PPP loans again in the first quarter of 2021.

The Company anticipates that the majority of PPP loans it originates will ultimately be forgiven, in whole or in part, by the SBA in accordance with the terms of the program. Management anticipates that loan forgiveness applications will continue during 2021.

Allowance for Loan Losses

	December 31,				
(amounts in thousands)		9	18	17	16
Balance, beginning of period	$ 21,840	$ 17,896	$ 14,970	$ 10,981	$ 8,351
Provision charged to expense	9,325	5,966	3,892	4,872	4,330
Losses charged off					
Commercial and industrial	(461)	(921)	(92)	(271)	(1,582)
Owner-occupied commercial real estate	(24)	—	—	—	—
Healthcare finance	(743)	—	—	—	—
Small business lending	(110)	—	—	—	—
Residential mortgage	(20)	(76)	(9)	(116)	(134)
Home equity	—	(68)	—	—	(33)
Other consumer	(804)	(1,292)	(1,176)	(895)	(440)
Total losses charged off	(2,162)	(2,357)	(1,277)	(1,282)	(2 189)
Recoveries					
Commercial and industrial	6	29	3	69	187
Healthcare finance	87	—	—	—	—
Small business lending	19	5	—	—	—
Residential mortgage	4	4	5	4	30
Home equity	11	10	16	23	13
Other consumer	354	287	287	303	259
Total recoveries	481	335	311	399	489
Balance, end of period	$ 29,484	$ 21,840	$ 17,896	$ 14,970	$ 10,981
Net charge-offs	$ 1,681	$ 2,022	$ 966	$ 883	$ 1,700
Net charge-offs to average loans	0.06 %	0.07 %	0.04 %	0.05 %	0.15 %

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

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

The allowance for loan losses was $29.5 million as of December 31, 2020, compared to $21.8 million as of December 31, 2019. While total loan balances experienced a modest increase of $95.7 million, or 3.2%, the Company made additional adjustments to qualitative factors in its allowance model to reflect the continued economic uncertainty resulting from COVID-19. As a result, both the allowance for loan losses and the allowance as a percentage of total loans increased compared to December 31, 2019.

The allowance for loan losses as a percentage of total loans was 0.96% as of December 31, 2020, or 0.98% when excluding PPP Loans, compared to 0.74% as of December 31, 2019. The allowance for loan losses as a percentage of nonperforming loans decreased to 289.5% as of December 31, 2020, from to 324.4% as of December 31, 2019. The provision for loans losses was $9.3 million for the twelve months ended December 31, 2020 compared to $6.0 million for the twelve months ended December 31, 2019. The increase in the provision for loan losses was due primarily to the additional adjustments to qualitative factors in the allowance model discussed above. During 2020, the Company recorded net charge-offs of $1.7 million, compared to $2.0 million during 2019.

Investment Securities Portfolio

In managing the Company's investment securities portfolio, management focuses on providing an adequate level of liquidity and managing long-term interest rate risk, 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 "trading securities." The Company did not classify any securities as trading securities as of December 31, 2020 and 2019. Securities that we intend to hold until maturity are classified as "held-to-maturity" securities, and all other investment securities are classified as "available-for-sale." The carrying values of available-for-sale investment securities are adjusted for unrealized gains or losses as a valuation allowance and any gain or loss is reported on an after-tax basis as a component of other comprehensive income (loss).

The Company periodically evaluates each security in an unrealized loss position to determine if the impairment is temporary or other-than-temporary. As of December 31, 2020, the unrealized losses in the Company's investment securities portfolio were due primarily to interest rate changes and elevated credit spreads resulting from the economic uncertainty of the COVID-19 pandemic. The Company has the ability and intent to hold all investment securities in an unrealized loss position resulting from interest rate changes to the earlier of the forecasted recovery or the maturity of the underlying investment security. As of December 31, 2020, the Company did not have any investment securities of a single issuer that exceeded 10% of shareholders' equity. The term "issuer" excludes the U.S. Government and its sponsored agencies and corporations.

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

(amounts in thousands)	December 31,				
Amortized Cost		**9**	**8**	**7**	**6**
Securities available-for-sale					
U.S. Government-sponsored agencies	$ 61,765	$ 77,715	$ 109,631	$ 133,424	$ 92,599
Municipal securities	82,757	97,447	97,090	97,370	97,647
Agency mortgage-backed securities	241,795	264,142	242,293	215,452	238,354
Private-label mortgage-backed securities	57,268	63,704	9,199	—	—
Asset-backed securities	5,000	5,000	5,002	5,000	19,470
Corporate securities	48,419	38,632	36,678	27,111	20,000
Other securities	—	—	—	3,000	3,000
Total securities available-for-sale	497,004	546,640	499,893	481,357	471,070
Securities held-to-maturity					
Municipal securities	14,571	10,142	10,157	10,164	10,171
Corporate securities	53,652	51,736	12,593	9,045	6,500
Total securities held-to-maturity	68,223	61,878	22,750	19,209	16,671
Total securities	$ 565,227	$ 608,518	$ 522,643	$ 500,566	$ 487,741

	December 31,				
Approximate Fair Value		**9**	**8**	**7**	**6**
Securities available-for-sale					
U.S. Government-sponsored agencies	$ 60,545	$ 75,872	$ 107,585	$ 133,190	$ 91,896
Municipal securities	82,489	97,652	92,506	96,377	91,886
Agency mortgage-backed securities	243,921	261,440	233,734	209,720	231,641
Private-label mortgage-backed securities	58,116	63,613	9,178	—	—
Asset-backed securities	4,961	4,955	4,859	5,009	19,534
Corporate securities	47,596	37,320	33,483	26,047	18,811
Other securities	—	—	—	2,932	2,932
Total securities available-for-sale	497,628	540,852	481,345	473,275	456,700
Securities held-to-maturity					
Municipal securities	15,317	10,368	9,801	9,847	9,673
Corporate securities	54,135	52,192	12,617	9,236	6,524
Total securities held-to-maturity	69,452	62,560	22,418	19,083	16,197
Total securities	$ 567,080	$ 603,412	$ 503,763	$ 492,358	$ 472,897

The approximate fair value of investment securities available-for-sale decreased $43.2 million, or 8.0%, to $497.6 million as of December 31, 2020 compared to $540.9 million as of December 31, 2019. The decrease was due primarily to decreases of $17.5 million in agency mortgage-backed securities, $15.3 million in agency securities, $15.2 million in municipal securities and $5.5 million in private-label mortgage-backed securities. These decreases were driven primarily by prepayments and maturities in agency and mortgage-backed securities, as well as early redemptions and maturities in municipal securities. The decreases were partially offset by purchases of corporate securities as excess liquidity from deposit growth was deployed. As of December 31, 2020, the Company had securities with an amortized cost basis of $68.2 million designated as held-to-maturity compared to $61.9 million as of December 31, 2019, an increase of $6.3 million, due mainly to the purchase of corporate securities.

Investment Maturities

The following table summarizes the contractual maturity schedule of the Company’s investment securities at their amortized cost and their weighted average yields at December 31 2020.

	year or less		More than 1 year to 5 years		More than 5 years to 10 years		More than 10 years		Total	
(dollars in thousands)	**Amortized Cost**	**Wtd. Avg. Yield**	**Amortized Cost**	**Wtd. Avg. Yield**	**Amortized Cost**	**Wtd. Avg. Yield**	**Amortized Cost**	**Wtd. Avg. Yield**	**Amortized Cost**	**Wtd. Avg. Yield**
Securities:										
U.S. Government-sponsored agencies	$ —	0.00 %	$ 1,804	2.49 %	$ 40,532	0.30 %	$ 19,429	1.13 %	$ 61,765	0.62 %
Municipal securities [1]	—	0.00 %	4,638	2.17 %	15,096	2.53 %	77,594	2.56 %	97,328	2.54 %
Agency mortgage-backed securities [1]	—	0.00 %	—	0.00 %	15,519	1.67 %	226,276	1.77 %	241,795	1 76 %
Private-label mortgage-backed securities	—	0.00 %	—	0.00 %	—	0.00 %	57,268	2.53 %	57,268	2.53 %
Asset-backed securities	—	0.00 %	—	0.00 %	5,000	1.74 %	—	0 00 %	5,000	1.74 %
Corporate securities	—	0.00 %	23,328	1.37 %	73,743	3.80 %	5,000	3.00 %	102,071	3.20 %
Total securities	$ —	0.00 %	$ 29,770	1.57 %	$ 149,890	2.43 %	$ 385,567	2.02 %	$ 565,227	2.11 %

[1] Excludes the impact of interest rate swaps associated with fixed-rate securities.

Accrued Income and Other Assets

Accrued income and other assets were $64.3 million at December 31, 2020 compared to $67.1 million at December 31, 2019. As of these dates, the Company pledged $30.6 million and $42.3 million, respectively, of cash collateral to counterparties on interest rate swap agreements as security for its obligations related to these agreements. Collateral posted and received is dependent on the fair value of the underlying agreements as of the respective date. The decrease in cash collateral pledged was partially offset by an increase of $4.9 million in deferred tax assets.

Deposits

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

	December 31,									
(dollars in thousands)			9		18		17		16	
Noninterest-bearing deposits	$ 96,753	3.0 %	$ 57,115	1.8 %	$ 43,301	1.6 %	$ 44,686	2.1 %	$ 31,166	2.1 %
Interest-bearing demand deposits	188,645	5.8 %	129,020	4.1 %	121,055	4.5 %	94,674	4.5 %	93,074	6.4 %
Savings accounts	43,200	1.3 %	29,616	0.9 %	38,489	1.4 %	49,939	2.4 %	27,955	1.9 %
Money market accounts	1,350,566	41.3 %	786,390	24.9 %	528,533	19.9 %	499,501	24.0 %	340,240	23.3 %
Certificates of deposits	1,289,319	39.4 %	1,613,453	51.2 %	1,292,883	48.4 %	1,319,488	63.3 %	964,819	65.9 %
Brokered deposits	302,402	9.2 %	538,369	17.1 %	647,090	24.2 %	76,653	3.7 %	5,613	0.4 %
Total	$3,270,885	100.0 %	$3,153,963	100.0 %	$2,671,351	100.0 %	$2,084,941	100.0 %	$1,462,867	100.0 %

Total deposits increased $116.9 million, or 3.7%, to $3.3 billion as of December 31, 2020 as compared to $3.2 billion as of December 31, 2019. During 2020, money market accounts increased $564.2 million, or 71.7%, interest-bearing deposits increased $59.6 million, or 46.2%, and noninterest-bearing demand deposits increased $39.6 million, or 69.4%. These increases were partially offset by declines of $324.1 million, or 20.1%, in certificates of deposits and $236.0 million, or 43 8%, in brokered deposits accounts. The Company experienced strong growth in money market balances due to targeted digital marketing efforts to grow small business accounts, as well as consumers, small businesses and commercial clients increasing their cash balances due in part to the economic uncertainty resulting from the COVID-19 pandemic. The declines in certificates of deposits and brokered deposits were due to the maturity of higher cost balances and reduced pricing strategies designed to limit the volume of new production.

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

Time Deposit Maturities at December 31, 2020

	Period to Maturity					
(dollars in thousands)	**Less than 1 year**	**> 1 year to 2 years**	**> 2 years to 3 years**	**More than 3 years**	**Total**	**Percentage of Total Certificate Accounts**
Interest Rate:						
<1.00%	$ 181,493	$ 60,614	$ 6,991	$ 9,094	$ 258,192	19.5 %
1.00% – 1.99%	$ 286,711	$ 65,821	$ 12,090	$ 21,308	$ 385,930	29.1 %
2.00% – 2.99%	377,936	106,768	43,964	27,343	556,011	41.9 %
3.00% – 3.99%	37,321	8,850	36,443	43,144	125,758	9.5 %
Total	$ 883,461	$ 242,053	$ 99,488	$ 100,889	$ 1,325,891	100.0 %

Time Deposit Maturities of $100,000 or Greater

(dollars in thousands)	**December 31, 2020**
Maturity Period:	
3 months or less	$ 245,739
Over 3 through 6 months	214,052
Over 6 through 12 months	281,039
Over 12 months	350,566
Total	$ 1,091,396

Federal Home Loan Bank Advances

Although deposits are the primary source of funds for our lending and investment activities and for general business purposes, we may use short-term advances from the ederal Home Loan Bank of Indianapolis (the "FHLB") to manage liquidity needs and longer-term advances to supplement balance sheet growth and manage interest rate risk. During 2018, the Company converted $110.0 million of short-term FHLB advances to longer term fixed-rate structures using interest rate swaps to reduce long-term interest rate risk. Refer to Note 19 to the Company's consolidated financial statements for additional information about derivative financial instruments. The following table is a summary of FHLB borrowings for the periods indicated.

	At Or For The Twelve Months Ended December 31,		
(dollars in thousands)		**9**	**18**
Balance outstanding at end of period	$ 514,916	$ 514,910	$ 525,153
Average amount outstanding during period	514,913	511,093	433,211
Maximum outstanding at any month end during period	514,916	525 000	525,153
Weighted average interest rate at end of period [1]	1.30 %	1.98 %	2.15 %
Weighted average interest rate during period [1]	1.78 %	2.15 %	1.88 %

[1] Excludes the impact of interest rate swaps.

Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities were $48.4 million at December 31, 2020 compared to $53.0 million at December 31, 2019. The decrease of $4.6 million, or 8.7%, was due primarily to an $8.0 million increase in the fair value of interest rate swap agreements.

Liquidity and Capital Resources

The Company believes it has sufficient liquidity and capital resources to meet its cash and capital expenditure requirements for at least the next twelve months. The Company may explore strategic alternatives, including additional asset, deposit or revenue generation channels that complement our commercial and consumer banking platforms, which may require additional capital. If the Company is unable to secure such capital at favorable terms, its ability to take advantage of such opportunities could be adversely affected.

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

Additionally, the Company has enhanced its liquidity management process through increased loan sale activity. During 2020, the Company sold $188.6 million of public finance, single tenant lease financing and SBA 7(a) guaranteed loans at premiums to book value, as well as a $90.8 million pool of residential mortgage loans. During 2019, the Company sold $237.5 million of portfolio residential mortgage, single tenant lease financing and public finance loans. These loan sales have provided liquidity to manage overall loan portfolio growth and capital utilization.

The Company holds cash and investment securities that qualify as liquid assets to maintain adequate liquidity to ensure safe and sound operations and meet its financial commitments. We modestly reduced the size of our balance sheet during the fourth quarter 2020 through continued deposit repricing as loan demand was lower than earlier in the year. A component of this balance sheet management strategy included reducing our cash balances from the levels at September 30, 2020. However, given the uncertainty regarding the duration and ultimate economic effect of COVID-19, we believe it will be prudent to maintain higher levels of cash on the balance sheet than we have historically maintained until the crisis passes. We believe we have sufficient on-balance sheet liquidity, supplemented by access to additional funding sources, to manage the potential economic impact of COVID-19. At December 31, 2020, on a consolidated basis, the Company had $917.4 million in cash and cash equivalents and investment securities available-for-sale, and $39.6 million in loans held-for-sale that were generally available for its cash needs. The Company can also generate funds from wholesale funding sources and collateralized borrowings. At December 31, 2020, the Bank had the ability to borrow an additional $492.3 million in advances from the FHLB and correspondent bank Fed Funds lines of credit.

The Company is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, the Company is responsible for paying any dividends declared to its common shareholders and interest and principal on outstanding debt. The Company's primary sources of funds are cash maintained at the holding company level and dividends from the Bank, the payment of which is subject to regulatory limits. At December 31, 2020, the Company, on an unconsolidated basis, had $40.5 million in cash generally available for its cash needs, which is in excess of its current annual regular shareholder dividend and operating expenses.

The Company uses its sources of funds primarily to meet ongoing financial commitments, including withdrawals by depositors, credit commitments to borrowers, operating expenses and capital expenditures. At December 31, 2020, approved outstanding loan commitments, including unused lines of credit, amounted to $263.9 million. Certificates of deposit scheduled to mature in one year or less at December 31, 2020 totaled $883 5 million.

On December 18, 2018 the Company's Board of Directors approved a stock repurchase program authorizing the repurchase of up to $10.0 million of the Company's outstanding common stock from time to time on the open market or in privately negotiated transactions. The stock repurchase program was scheduled to expire on December 31, 2019. Under this program, the Company repurchased 482,970 shares of common stock through September 30, 2019, at an average price of $20.70, for a total repurchase amount of $10.0 million, thus repurchasing the maximum amount of stock authorized by the Company's Board of Directors under this program.

In March 2013, the Company borrowed $4.0 million from the Bank for the purchase of the Company's principal executive offices. The loan was originally scheduled to mature in March 2014 and had been extended annually through March 2020. In February 2020, the Company entered into an amendment that, among other things, extended its maturity to April 1, 2022. The principal balance of the loan was $3.0 million as of December 31, 2019 and its payment terms are interest only through April 1, 2022. The amounts borrowed under the loan bear interest at a variable rate equal to the then applicable prime rate (as determined by the Bank with reference to the "Prime Rate" published in The Wall Street Journal) plus 1.00% per annum.

Reconciliation of Non-GAAP Financial Measures

This annual report on Form 10-K contains financial information determined by methods other than in accordance with U.S. generally accepted accounting principles ("GAAP"). Non-GAAP financial measures, specifically tangible common equity, tangible assets, tangible book value per common share, the ratio of tangible common equity to tangible assets, average tangible common equity, return on average tangible common equity, net interest income FTE, net interest margin FTE, adjusted income before income taxes, adjusted income tax provision, adjusted net income, adjusted diluted earnings per share, adjusted return on average assets, adjusted return on average shareholders' equity, adjusted return on average tangible common equity and adjusted effective income tax rate are used by management to measure the strength of the Company's capital and analyze profitability, including its ability to generate earnings on tangible capital invested by its shareholders. Management also believes that it is a standard practice in the banking industry to present net interest margin and net income on a fully-taxable equivalent basis as those measures provide useful information for peer comparisons. Although the Company believes these non-GAAP measures provide a greater understanding of its business, they should not be considered a substitute for financial measures determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures are included in the following table.

(dollars in thousands, except share and per share data)	At Or For The Twelve Months Ended December 31,				
		9	18	17	16
Total equity - GAAP	$ 330,944	$ 304,913	$ 288,735	$ 224,127	$ 153,942
Adjustments:					
Goodwill	(4,687)	(4,687)	(4,687)	(4,687)	(4,687)
Tangible common equity	$ 326,257	$ 300,226	$ 284,048	$ 219,440	$ 149,255
Total assets - GAAP	$ 4,246,156	$ 4,100,083	$ 3,541,692	$ 2,767,687	$ 1,854,335
Adjustments:					
Goodwill	(4,687)	(4,687)	(4,687)	(4,687)	(4,687)
Tangible assets	$ 4,241,469	$ 4,095,396	$ 3,537,005	$ 2,763,000	$ 1,849,648
Total common shares outstanding	9,800,569	9,741,800	10,170,778	8,411,077	6,478,050
Book value per common share	$ 33.77	$ 31.30	$ 28.39	$ 26.65	$ 23 76
Effect of goodwill	(0.48)	(0.48)	(0.46)	(0.56)	(0.72)
Tangible book value per common share	$ 33.29	$ 30.82	$ 27.93	$ 26.09	$ 23.04
Total shareholders' equity to assets ratio	7.79 %	7.44 %	8.15 %	8.10 %	8.30 %
Effect of goodwill	(0.10)%	(0.11)%	(0.12)%	(0.16)%	(0.23)%
Tangible common equity to tangible assets ratio	7.69 %	7.33 %	8.03 %	7.94 %	8.07 %
Total average equity - GAAP	$ 313,763	$ 296,382	$ 259,416	$ 178,212	$ 124,023
Adjustments:					
Average goodwill	(4,687)	(4,687)	(4,687)	(4,687)	(4,687)
Average tangible common equity	$ 309,076	$ 291,695	$ 254,729	$ 173,525	$ 119,336
Return on average shareholders' equity	9.39 %	8.52 %	8.44 %	8.54 %	9.74 %
Effect of goodwill	0.14 %	0.13 %	0.16 %	0.23 %	0.38 %
Return on average tangible common equity	9.53 %	8.65 %	8.60 %	8.77 %	10.12 %
Net interest income	$ 64,541	$ 62,967	$ 62,267	$ 53,982	$ 39,689
Adjustments:					
Fully-taxable equivalent adjustments[1]	5,796	6,334	5,010	4,053	1,090
Net interest income - FTE	$ 70,337	$ 69,301	$ 67,277	$ 58,035	$ 40,779
Net interest margin	1.55 %	1.65 %	2.09 %	2.39 %	2.49 %
Effect of fully-taxable equivalent adjustments[1]	0.13 %	0.17 %	0.16 %	0.18 %	0.06 %
Net interest margin - FTE	1.68 %	1.82 %	2.25 %	2.57 %	2.55 %

[1]Assuming a 21% tax rate in 2020, 2019 and 2018 and a 35% tax rate in 2017 and 2016

Critical Accounting Policies and Estimates

Allowance for Loan Losses. We believe the allowance for loan losses is the critical accounting policy that requires the most significant judgments and assumptions used in the preparation of our consolidated financial statements. An estimate of potential losses inherent in the loan portfolio is determined and an allowance for those losses is established by considering factors including historical loss rates, expected cash flows, estimated collateral values, and other qualitative factors. 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 and business conditions, unemployment rates, concentrations of credit, changes in the nature and volume of the portfolio, terms of loans, risk grades, trends in charge-offs and recoveries, trends in delinquencies, nonaccrual loans, and impaired loans, and changes in lending policies and procedures. Because the economic and business climate in any given industry or market, and its impact on any given borrower, can change rapidly, the risk profile of the loan portfolio is periodically assessed and adjusted when appropriate. Notwithstanding these procedures, there still exists the possibility that the assessment could prove to be significantly incorrect and that an immediate adjustment to the allowance for loan losses would be required.

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

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

Impairment of Goodwill. As a result of a previous acquisition by the Company, 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 24 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, interest rate swaps and forms of commitments that may be considered off-balance sheet arrangements. Interest rate swaps are arranged to receive hedge accounting treatment and are classified as either fair value or cash flow hedges. Fair value hedges are purchased to convert certain fixed rate assets to floating rate. Cash flow hedges are used to convert certain variable rate liabilities into fixed rate liabilities. In June 2020, the Company terminated all fair value hedging instruments associated with loans. At December 31, 2020 and December 31, 2019, the Company had interest rate swaps with notional amounts of $298.2 million and $725.6 million, respectively. Additionally, 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, 2020 and December 31, 2019, we had commitments to sell residential real estate loans of $107.5 million and $115.0 million, respectively. These contracts mature in less than one year. Refer to Note 19 to the Company's consolidated financial statements for additional information about derivative financial instruments.

Contractual Obligations

The following table presents significant fixed and determinable contractual obligations and significant commitments as of December 31, 2020. Further discussion of each obligation or commitment is included in the referenced note to the consolidated financial statements.

		Payments Due In				
(dollars in thousands)	Note Reference	Less than year	-3 years	3-5 years	More than 5 years	Total
Deposits and brokered deposits without stated maturity[1]	9	$1,828,960	$ —	$ —	$ —	$1,828,960
Certificates of deposits and brokered certificates of deposits[1]	9	919,189	401,847	120,639	250	1,441,925
FHLB advances[1,2]	10	110,000	35,000	235,020	134,896	514,916
Subordinated debt[1]	11	—	—	—	82,000	82,000
Operating lease commitments	6	423	354	—	—	777
Total contractual obligations		$2,858,572	$ 437,201	$ 355,659	$ 217,146	$3,868,578

[1] Amounts do not include associated interest payments.
[2] Amounts do not include the effect of interest rate swaps used to convert short-term advances into long-term funding.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

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

Presented below is the estimated impact on the Company's NII and EVE position as of December 31, 2020, assuming parallel shifts in interest rates:

	% Change from Base Case for Parallel Changes in Rates			
	-50 Basis Points	-25 Basis Points	+ Basis Points	+200 Basis Points
NII - next twelve months	(1.26)%	(0.24)%	(2.43)%	(5.84)%
NII - Year 2	8.32 %	10.08 %	8.01 %	3.54 %
EVE	(0.24)%	0.70 %	(2.82)%	(11.18)%

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

Item 8. Financial Statements and Supplementary Data

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

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information the Company is required to disclose in reports that the Company files or submits under the 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, 2020.

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, 2020. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013). Based on that assessment, management concluded that, as of December 31, 2020, the Company’s internal control over financial reporting was effective based on those criteria. The Company’s internal control over financial reporting as of December 31, 2020 has been audited by BKD, LLP, an independent registered public accounting firm, as stated in its report appearing on page F-2.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company’s internal control over financial reporting during the quarter ended December 31, 2020, that has materially affected or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Certain information required by Part III is incorporated by reference from our definitive Proxy Statement for our 2021 Annual Meeting of Shareholders (the "Proxy Statement"), which we intend to file with the SEC pursuant to Regulation 14A within 120 days after December 31, 2020. Except for those portions specifically incorporated by reference from our Proxy Statement, no other portions of the Proxy Statement are deemed to be filed as part of this report.

Item 10. Directors, Executive Officers and Corporate Governance

Information about our Executive Officers

Our executive officers are as follows:

Name	Age	Position
David B. Becker	67	Chairman, President, Chief Executive Officer and Director
Kenneth J. Lovik	51	Executive Vice President and Chief Financial Officer
Nicole S. Lorch	46	Executive Vice President and Chief Operating Officer
C. Charles Perfetti	76	Executive Vice President and Secretary

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

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

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

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

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

Code of Business Conduct and Ethics

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

The disclosure in the Proxy Statement under the headings "Proposal No. 1 - Election of Directors," "Corporate Governance," "Shareholder proposals for 2021 Annual Meeting," and, if applicable "Delinquent Section 16(a) Reports" is incorporated into this Item by reference.

Item 11. Executive Compensation

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

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

Incorporated into this Item by reference is the information in the Proxy Statement appearing under the headings "Security Ownership of Certain Beneficial Owners and Management" 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:

Exhibit No.	Description
3.1	Amended and Restated Articles of Incorporation of First Internet Bancorp (incorporated by reference to Exhibit 3.1 to current report on Form 8-K filed May 21, 2020)
3.2	Amended and Restated Bylaws of First Internet Bancorp (incorporated by reference to Exhibit 3.2 to current report on Form 8-K filed May 21, 2020)
4.1	Description of Securities Registered under Section 12 of the Securities Exchange Act of 1934
4.2	Subordinated Indenture, dated as of September 30, 2016, between First Internet Bancorp and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to current report on Form 8-K filed on September 30, 2016)
4.3	First Supplemental Indenture, dated as of September 30, 2016 between First Internet Bancorp and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2 to current report on Form 8-K filed on September 30, 2016)
4.4	Second Supplemental Indenture, dated as of June 12, 2019, between First Internet Bancorp and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2 to current report on Form 8-K filed June 12, 2019
4.5	Third Supplemental Indenture, dated as of October 26, 2020, between First Internet Bancorp and U.S. Bank National Association, as trustee (including form of 6.0% Fixed-to-Floating Rate Subordinated Notes due 2030) (incorporated by reference to Exhibit 4.2 to current report on Form 8-K filed October 26, 2020)
4.6	Form of Global Note representing 6.0% Subordinated Notes due 2026 (incorporated by reference to Exhibit A included in Exhibit 4.2 to current report on Form 8-K filed on September 30, 2016)
4.7	Form of Senior Indenture (incorporated by reference to Exhibit 4.5 to registration statement on Form S-3 (Registration No. 333-219841) filed August 9, 2017)
4.8	Form of Subordinated Indenture (incorporated by reference to Exhibit 4.6 to registration statement on Form S-3 (Registration No. 333-219841) filed August 9, 2017)
10.1	irst 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	orm 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	Form of Management Incentive Award Agreement - Restricted Stock Units under 2013 Equity Incentive Plan for awards on or before January 21, 2019 (incorporated by reference to Exhibit 10.2 to quarterly report on form 10-Q for the fiscal quarter ended March 31, 2017)*
10.4	Form of Management Incentive Award Agreement - Restricted Stock Units under 2013 Equity Incentive Plan for awards after January 21, 2019 (incorporated by reference to Exhibit 10.1 to quarterly report on orm 10-Q for the fiscal quarter ended March 31, 2019)*
10.5	First Internet Bancorp 2011 Directors' Deferred Stock Plan (incorporated by reference to Exhibit 10.2 to registration statement on Form 10 filed November 30, 2012)*
10.6	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)*

Exhibit No.	Description
10.7	orm of Non-Employee Director Restricted Stock Award Agreement under 2013 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to quarterly report on Form 10-Q filed May 4, 2016)*
10.8	Loan Agreement dated as of March 6, 2013, by and between First Internet Bancorp and First Internet Bank of Indiana (incorporated by reference to Exhibit 10.1 to current report on Form 8-K filed March 11, 2013)
10.9	First Internet Bancorp Annual Bonus Plan (incorporated by reference to Exhibit 10.1 to quarterly report on orm 10-Q for the fiscal quarter ended March 31, 2017)*
10.10	Form of Subordinated Note Purchase Agreement, dated as of October 26, 2020, between First Internet Bancorp and the purchaser thereunder (incorporated by reference to Exhibit 10.1 to current report on Form 8-K filed October 26, 2020)
21.1	List of Subsidiaries (incorporated by reference to Exhibit 21.1 to annual report on Form 10-K for the fiscal year ended December 31, 2018)
23.1	Consent of Independent Registered Public Accounting Firm
24.1	Powers of Attorney
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certifications
101	Financial statements from the Annual Report on Form 10-K of First Internet Bancorp for the period ended December 31, 2020, filed with the SEC on March 15, 2021, formatted in inline extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets at December 31, 2020 and 2019, (ii) the Consolidated Statements of Income for the fiscal years ended December 31, 2020, 2019, and 2018, (iii) the Consolidated Statements of Comprehensive Income for the fiscal years ended December, 2020, 2019, and 2018, (iv) the Consolidated Statements of Shareholders' Equity for the fiscal years ended December 31, 2020, 2019, and 2018, (v) Consolidated Statements of Cash Flows for the fiscal years ended December 31, 2020, 2019, and 2018, and (iv) Notes to Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

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

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 15, 2021.

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 15, 2021.

s/ David B. Becker

David B. Becker,
Chairman, President,
Chief Executive Officer and Director
(Principal Executive Officer)

s/ Kenneth J. Lovik

Kenneth J. Lovik,
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Ana Dutra, *Director*

John K. Keach, Jr., *Director*

David R. Lovejoy, *Director*

Michael L. Smith, *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

Reports of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of irst Internet Bancorp (Company) as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, 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) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2020, based on criteria and established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) our report dated March 15, 2021, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits.

We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matters or on the accounts or disclosures to which it relates.

As described in Note 4 to the consolidated financial statements, the Company's consolidated allowance for loan losses (ALLL) was $29.48 million at December 31, 2020. The Company also describes in Note 1 of the consolidated financial statements the "Allowance for Loan Losses Methodology" accounting policy around this estimate. The ALLL is an estimate of losses inherent in the loan portfolio. The determination of the reserve requires significant judgment reflecting the Company's best estimate of probable loan losses.

The ALLL is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management determines that an outstanding loan will not be collected. Subsequent recoveries, if any, are credited to the allowance.

The ALLL is evaluated on a regular basis by management and is based on management's periodic review of the collectability of the loans in light of historical experiences, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to revision as more information becomes available.

The ALLL consists of specific and general components. The specific component relates to loans that are classified as impaired and an allowance is established when the discounted cash flows (or collateral value) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. The historical charge-off experience is determined by portfolio segment and is based on an analysis of historical loss activity over a time period that represents the economic life cycle of the loan segment. Other adjustments for each segment, such as qualitative or environmental considerations may be added to the allowance for each loan segment after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

The primary reason for our determination that the ALLL is a critical audit matter is that it involved significant judgment and complex review There is a high degree of subjectivity in evaluating management's estimate, such as evaluating management's assessment of economic conditions and other environmental factors, including the impact of the COVID-19 pandemic on the loan portfolio, evaluating the adequacy of specific allowances associated with impaired loans and assessing the appropriateness of loan grades.

Our audit procedures related to the estimated allowance for loan losses included:

- Testing the design and operating effectiveness of internal controls, including those related to technology, over the ALLL.
- Testing clerical and computational accuracy of the company's ALLL calculation.
- Testing the completeness and accuracy of underlying data utilized in the ALLL, including reports used in management review controls over the ALLL.
- Evaluating the qualitative and environmental adjustments to the historical loss rates, including assessing the basis for the adjustments and the reasonableness and directional consistency of those adjustments, including the reliability and relevance of the significant assumptions and underlying data.
- Evaluating the appropriateness of loan grades and assessing the reasonableness of specific impairments on loans.

s/ BKD, LLP

We have served as the Company's auditor since 2004.

Indianapolis, Indiana
March 15, 2021

Reports of Independent Registered Public Accounting Firm

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

Opinion on the Internal Control over Financial Reporting

We have audited First Internet Bancorp's (the "Company") internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework: (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework: (2013)* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements of the Company and our report dated March 15, 2021, expressed an unqualified opinion thereon.

Basis for Opinion

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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

Definitions and Limitations of Internal Control over Financial Reporting

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.

s/ BKD, LLP

Indianapolis, Indiana
March 15, 2021

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

	December 31,	
		9
Assets		
Cash and due from banks	$ 7,367	$ 5,061
Interest-bearing demand deposits	412,439	322,300
Total cash and cash equivalents	419,806	327,361
Securities available-for-sale - at fair value (amortized cost of $497,004 in 2020 and $546,640 in 2019)	497,628	540,852
Securities held-to-maturity - at amortized cost (fair value of $69,452 in 2020 and $62,560 in 2019)	68,223	61,878
Loans held-for-sale (includes $26,341 in 2020 and $56,097 in 2019 at fair value)	39,584	56,097
Loans	3,059,231	2,963,547
Allowance for loan losses	(29,484)	(21,840)
Net loans	3,029,747	2,941,707
Accrued interest receivable	17,416	18,607
Federal Home Loan Bank of Indianapolis stock	25,650	25,650
Cash surrender value of bank-owned life insurance	37,952	37,002
Premises and equipment, net	37,590	14,630
Goodwill	4,687	4,687
Servicing asset, at fair value	3,569	2,481
Other real estate owned	—	2,065
Accrued income and other assets	64,304	67,066
Total assets	$ 4,246,156	$ 4,100,083
Liabilities and shareholders' equity		
Liabilities		
Noninterest-bearing deposits	$ 96,753	$ 57,115
Interest-bearing deposits	3,174,132	3,096,848
Total deposits	3,270,885	3,153,963
Advances from Federal Home Loan Bank	514,916	514,910
Subordinated debt, net of unamortized discounts and debt issuance costs of $2,397 in 2020 and $2,472 in 2019	79,603	69,528
Accrued interest payable	1,439	3,767
Accrued expenses and other liabilities	48,369	53,002
Total liabilities	3,915,212	3,795,170
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; 9,800,569 and 9,741,800 shares issued and outstanding in 2020 and 2019, respectively	221,408	219,423
Nonvoting common stock, no par value; 86,221 shares authorized; issued and outstanding - none	—	—
Retained earnings	126,732	99,681
Accumulated other comprehensive loss	(17,196)	(14,191)
Total shareholders' equity	330,944	304,913
Total liabilities and shareholders' equity	$ 4,246,156	$ 4,100,083

See Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
		9	18
Interest income			
Loans	$ 120,628	$ 122,228	$ 99,082
Securities – taxable	11,123	13,807	10,630
Securities – non-taxable	1,728	2,595	2,810
Other earning assets	3,380	8,784	2,945
Total interest income	136,859	147,414	115,467
Interest expense			
Deposits	55,976	69,313	42,484
Other borrowed funds	16,342	15,134	10,716
Total interest expense	72,318	84,447	53,200
Net interest income	64,541	62,967	62,267
Provision for loan losses	9,325	5,966	3,892
Net interest income after provision for loan losses	55,216	57,001	58,375
Noninterest income			
Service charges and fees	824	885	934
Loan servicing revenue	1,159	166	—
Loan servicing asset revaluation	(432)	—	—
Mortgage banking activities	24,693	11,541	5,718
Gain on sale of loans	8,298	2,074	503
Gain (loss) on sale of securities	139	(458)	—
Other	1,655	2,581	1,605
Total noninterest income	36,336	16,789	8,760
Noninterest expense			
Salaries and employee benefits	34,231	27,014	23,174
Marketing, advertising and promotion	1,654	1,800	2,468
Consulting and professional fees	3,511	3,669	3,055
Data processing	1,528	1,338	1,233
Loan expenses	2,036	1,142	942
Premises and equipment	6,396	6,059	4,996
Deposit insurance premium	1,810	1,903	1,956
Write-down of other real estate owned	2,065	—	2,423
Other	4,423	3,709	2,936
Total noninterest expense	57,654	46,634	43,183
Income before income taxes	33,898	27,156	23,952
Income tax provision	4,445	1,917	2,052
Net income	$ 29,453	$ 25,239	$ 21,900
Income per share of common stock			
Basic	$ 2.99	$ 2.51	$ 2.31
Diluted	2.99	2.51	2.30
Weighted-average number of common shares outstanding			
Basic	9,840,205	10,041,581	9,490,506
Diluted	9,842,425	10,044,483	9,508,653
Dividends declared per share	$ 0.24	$ 0.24	$ 0.24

See Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
		9	18
Net income	$ 29,453	$ 25,239	$ 21,900
Other comprehensive (loss) income			
Net unrealized holding gains (losses) on securities available-for-sale recorded within other comprehensive income before income tax	6,551	12,072	(10,466)
Reclassification adjustment for (gains) losses realized	(139)	458	—
Net unrealized holding losses on cash flow hedging derivatives recorded within other comprehensive income before income tax	(10,248)	(9,071)	(4,358)
Other comprehensive (loss) income before tax	(3,836)	3,459	(14,824)
Income tax (benefit) provision	(831)	1,109	(4,365)
Other comprehensive (loss) income - net of tax	(3,005)	2,350	(10,459)
Comprehensive income	$ 26,448	$ 27,589	$ 11,441

See Notes to Consolidated Financial Statements

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

	Voting and Nonvoting Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance, January 1, 2018	$ 172,043	$ 57,103	$ (5,019)	$ 224,127
Impact of adoption of new accounting standards [(1)]		1,063	(1,063)	—
Net income	—	21,900	—	21,900
Other comprehensive loss	—	—	(10,459)	(10,459)
Dividends declared ($0.24 per share)	—	(2,377)		(2,377)
Net cash proceeds from common stock issuance	54,334	—	—	54,334
Repurchase of common stock	(216)	—	—	(216)
Recognition of the fair value of share-based compensation	1,596	—	—	1,596
Deferred stock rights and restricted stock units issued in lieu of cash dividends payable on outstanding deferred stock rights and restricted stock units	40	—	—	40
Common stock redeemed for the net settlement of share-based awards	(210)	—	—	(210)
Balance, December 31, 2018	$ 227,587	$ 77,689	$ (16,541)	$ 288,735
Impact of adoption of new accounting standards [(2)]	—	(821)	—	(821)
Net income	—	25,239	—	25,239
Other comprehensive income	—	—	2,350	2,350
Dividends declared ($0.24 per share)	—	(2,426)	—	(2,426)
Repurchase of common stock	(9,784)	—	—	(9,784)
Recognition of the fair value of share-based compensation	1,680	—	—	1,680
Deferred stock rights and restricted stock units issued in lieu of cash dividends payable on outstanding deferred stock rights and restricted stock units	34	—	—	34
Common stock redeemed for the net settlement of share-based awards	(94)	—	—	(94)
Balance, December 31, 2019	$ 219,423	$ 99,681	$ (14,191)	$ 304,913
Net income	—	29,453	—	29,453
Other comprehensive loss	—	—	(3,005)	(3,005)
Dividends declared ($0.24 per share)	—	(2,402)	—	(2,402)
Recognition of the fair value of share-based compensation	2,110	—	—	2,110
Deferred stock rights and restricted stock units issued in lieu of cash dividends payable on outstanding deferred stock rights and restricted stock units	27	—	—	27
Common stock redeemed for the net settlement of share-based awards	(152)	—	—	(152)
Balance, December 31, 2020	$ 221,408	$ 126,732	$ (17,196)	$ 330,944

[(1)] Represents the impact of adopting Accounting Standards Update ("ASU") 2018-02 and ASU 2016-01. ASU 2018-02 increased retained earnings and accumulated other comprehensive loss by $1.1 million. ASU 2016-01 decreased retained earnings and accumulated other comprehensive loss by $0.1 million.

[(2)] Represents the impact of adopting ASU 2017-08.

See Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
		9	18
Operating activities			
Net income	$ 29,453	$ 25,239	$ 21,900
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation and amortization	7,831	6,926	5,667
Write-down of other real estate owned	2,065	—	2,423
Increase in cash surrender value of bank-owned life insurance	(950)	(943)	(954)
Provision for loan losses	9,325	5,966	3,892
Share-based compensation expense	2,110	1,680	1,596
(Gain) loss from sale of available-for-sale securities	(139)	458	—
Loans originated for sale	(1,009,266)	(627,597)	(364,630)
Proceeds from sale of loans originated for sale	1,054,873	601,215	376,535
Gain on sale of loans	(31,124)	(12,349)	(6,605)
Decrease (increase) in fair value of loans held-for-sale	94	(538)	(57)
(Gain) loss on derivatives	(2,069)	(671)	501
Settlement of derivatives	(46,109)	—	—
Net change in servicing assets	(1,088)	(2,481)	—
Deferred income tax	(4,118)	(4,402)	978
Net change in other assets	7,163	(42,079)	(11,807)
Net change in other liabilities	(4,983)	5,999	(83)
Net cash provided by (used in) operating activities	13,068	(43 577)	29,356
Investing activities			
Net loan activity, excluding sales and purchases	46,787	(191,070)	(463,528)
Proceeds from sales of other real estate owned	—	554	332
Net proceeds from sales of portfolio loans	207,475	293,708	41 916
Maturities of securities available-for-sale	179,724	92,610	62 507
Proceeds from sales of securities available-for-sale	16,986	30 137	—
Purchase of securities available-for-sale	(144,091)	(171,997)	(87,993)
Purchase of securities held-to-maturity	(2,000)	(39,208)	(3,554)
Purchase of Federal Home Loan Bank of Indianapolis stock	—	(2,025)	(4,050)
Purchase of premises and equipment	(25,559)	(4,105)	(2,219)
Loans purchased	(324,131)	(332,945)	(171,958)
Other investing activities	—	11,068	(10,166)
Net cash used in investing activities	(44,809)	(313,273)	(638 713)
Financing activities			
Net increase in deposits	116,922	482,612	586,410
Cash dividends paid	(2,349)	(2,418)	(2,230)
Net proceeds from issuance of subordinated debt	9,765	35,418	—
Repayment of subordinated debt	—	—	(3,000)
Net proceeds from common stock issuance	—	—	54,334
Repurchase of common stock	—	(9,784)	(216)
Proceeds from advances from Federal Home Loan Bank	440,000	595 000	375,000
Repayment of advances from Federal Home Loan Bank	(440,000)	(605,000)	(260,000)
Other, net	(152)	(329)	(210)
Net cash provided by financing activities	124,186	495,499	750 088
Net increase in cash and cash equivalents	92,445	138,649	140,731
Cash and cash equivalents, beginning of year	327,361	188,712	47,981
Cash and cash equivalents, end of year	$ 419,806	$ 327,361	$ 188,712
Supplemental disclosures of cash flows information			
Initial recognition of right-of-use asset	$ —	$ 2,096	$ —
Initial recognition of operating lease liabilities	—	2,096	—
Cash paid during the year for interest	74,646	81,788	52,403
Cash paid during the year for taxes	5,912	4,561	485
Loans transferred to other real estate owned	—	—	227
Loans transferred to held-for-sale from portfolio	204,647	291,152	16,065
Cash dividends declared, not paid	588	585	611
Security purchases settled in subsequent period	5,547	—	—
Transfer of mutual fund securities to other assets	—	—	2,932
Transfer of available-for-sale municipal securities to held-to-maturity municipal securities	4,479	—	—

See Notes to Consolidated Financial Statements

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

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

Description of Business

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

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

JKH Realty Services, LLC was established on August 20, 2012 as a single member limited liability company wholly owned by the Bank to manage other real estate owned properties as needed. irst Internet Public inance Corp., a wholly-owned subsidiary of the Bank, was incorporated on March 6, 2017 and was established to provide municipal finance lending and leasing products to government entities and to purchase, manage, service, and safekeep municipal securities. SPF15, Inc., a wholly-owned subsidiary of the Bank, was incorporated on August 31, 2018 and was established to acquire and hold real estate.

Principles of Consolidation

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

Use of Estimates

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

Securities

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

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

- Securities that are acquired and held principally for the purpose of selling them in the near term with the objective of generating economic profits on short-term differences in market characteristics are classified as "trading securities" and reported at fair value, with unrealized gains and losses included in earnings. The Company had no securities classified as "trading securities" at December 31, 2020 or 2019.

- Securities not classified as either "held-to-maturity" or "trading securities" are classified as "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.

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

Loans Held-for-Sale

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

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

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

Revenue Recognition

The Company recognizes revenues as they are earned based on contractual terms, as transactions occur, or as services are provided and collectability is reasonably assured. The Company's principal source of revenue is interest income from loans and leases and investment securities.

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.

The Company also earns noninterest income through a variety of financial and transaction services provided to corporate and consumer clients such as deposit account, debit card, mortgage banking, portfolio loan sales and sales of the government-guaranteed portion of U.S. Small Business Administration loans. Revenue is recorded for noninterest income based on the contractual terms for the service or transaction performed. In certain circumstances, noninterest income is reported net of associated expenses.

Loans

Loans that management intends to hold until maturity are reported at their outstanding principal balance adjusted for unearned income, charge-offs, the allowance for loan losses ("ALLL"), any unamortized deferred fees or costs on originated loans, unamortized premiums or discounts on purchased loans and carrying value adjustments related to interest rate swaps associated with loans.

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

Allowance for Loan Losses Methodology

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

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

1. Loans are segmented by type of loan.

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

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

   a. Present value of future cash flows;

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

   c. The loan's observable market price.

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

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

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

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

The Company also factors in the following qualitative considerations:

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

2. Changes in national, regional, and local unemployment rates;

3. The existence and effect of any concentrations of credit, and changes in the levels of such concentrations;

4. Changes in the nature and volume of the portfolio, and in the terms of loans;

5. Changes in the risk grades assigned to loans;

6. The levels of and trends in charge-offs and recoveries;

7. The levels of and trends in delinquencies, nonaccrual loans, and impaired loans; and

8. Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices.

Provision for Loan Losses

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

Nonaccrual Loans

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

Impaired Loans

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

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

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

Troubled Debt Restructurings

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

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

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

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

Premises and Equipment

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

Other Real Estate Owned

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

Derivative Financial Instruments

The Company uses derivative financial instruments to help manage exposure to interest rate risk and the effects that changes in interest rates may have on net income and the fair value of assets and liabilities. The Company enters into interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. Additionally, the Company enters into forward contracts for the future delivery of mortgage loans to third-party investors and enters into interest rate lock commitments ("IRLCs") with potential borrowers to fund specific mortgage loans that will be sold into the secondary market. The forward contracts are entered into in order to economically hedge the effect of changes in interest rates resulting from the Company's commitment to fund the loans.

Designating an interest rate swap as an accounting hedge allows the Company to recognize gains and losses, less any ineffectiveness, in the income statement within the same period that the hedged item affects earnings. The Company includes the gain or loss on the hedged items in the same line item as the offsetting loss or gain on the related interest rate swaps. or derivative instruments that are designated and qualify as cash flow hedges, any gains or losses related to changes in fair value are recorded in accumulated other comprehensive loss, net of tax. The fair value of interest rate swaps with a positive fair value are reported in accrued income and other assets in the consolidated balance sheets while interest rate swaps with a negative fair value are reported in accrued expenses and other liabilities in the consolidated balance sheets.

The IRLCs and forward contracts are not designated as accounting hedges, and are recorded at fair value with changes in fair value reflected in noninterest income in 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. air 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 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

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

There were no transfers that occurred and, therefore, recognized, between any of the fair value hierarchy levels at December 31, 2020 or 2019.

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 2017.

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 material uncertain tax positions that it believes should be recognized in the consolidated financial statements.

(Tabular dollar amounts in thousands except per share data)

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,		
		9	18
Basic earnings per share			
Net income available to common shareholders	$ 29,453	$ 25,239	$ 21,900
Weighted-average common shares	9,840,205	10,041,581	9,490,506
Basic earnings per common share	$ 2.99	$ 2.51	$ 2.31
Diluted earnings per share			
Net income available to common shareholders	$ 29,453	$ 25,239	$ 21,900
Weighted-average common shares	9,840,205	10,041,581	9,490,506
Dilutive effect of equity compensation	2,220	2,902	18,147
Weighted-average common and incremental shares	9,842,425	10,044,483	9,508,653
Diluted earnings per common share (1)	$ 2.99	$ 2.51	$ 2.30

(1) Potential dilutive common shares are excluded from the computation of diluted EPS in the periods where the effect would be antidilutive. Excluded from the computation of diluted EPS were weighted-average antidilutive shares totaling 18,524 and 15,758 for the years ended December 31, 2020 and 2019, respectively.

Share-based Compensation

The Company has a share-based compensation plan using the fair value recognition provisions of ASC Topic 718, *Compensation - Stock Compensation* The plan is described more fully in Note 12.

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 and unrealized gains and losses on cash flow hedges.

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.

(Tabular dollar amounts in thousands except per share data)

Servicing Asset

Servicing assets are related to small business lending loans sold and are recognized at the time of sale when servicing is retained with the income statement effect recorded in loan servicing revenue. Servicing assets are recorded at fair value in accordance with ASC 860. air value is based on a third-party valuation model that calculates the present value of net servicing revenue.

Reclassifications

Certain reclassifications have been made to the 2019 and 2018 financial statements to conform to the 2020 financial statement presentation. These reclassifications had no effect on net income.

Note 2: Cash and Cash Equivalents

At December 31, 2020, the Company's interest-bearing and noninterest-bearing cash accounts at other institutions exceeded the limits for full FDIC insurance coverage by $150.1 million. In addition, approximately $15.5 million and $246.7 million of cash was held by the FHLB of Indianapolis and ederal Reserve Bank of Chicago, respectively, which are not federally insured.

The Federal Reserve Act authorizes the ederal Reserve Board to establish reserve requirements within specified ranges for the purpose of implementing monetary policy on certain types of deposits and other liabilities of depository institutions. On March 15, 2020, the Federal Reserve Board reduced requirement ratios to zero percent effective March 26, 2020. As such, the Company is no longer required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank.

Note 3: Securities

The following tables summarize securities available-for-sale and securities held-to-maturity as of December 31, 2020 and 2019.

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale				
U.S. Government-sponsored agencies	$ 61,765	$ 432	$ (1,652)	$ 60 545
Municipal securities	82,757	463	(731)	82,489
Agency mortgage-backed securities	241,795	4,591	(2,465)	243,921
Private label mortgage-backed securities	57,268	850	(2)	58,116
Asset-backed securities	5,000	—	(39)	4,961
Corporate securities	48,419	771	(1,594)	47,596
Total available-for-sale	$ 497,004	$ 7,107	$ (6,483)	$ 497,628

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held-to-maturity				
Municipal securities	$ 14,571	$ 746	$ —	$ 15,317
Corporate securities	53,652	610	(127)	54,135
Total held-to-maturity	$ 68,223	$ 1,356	$ (127)	$ 69,452

(Tabular dollar amounts in thousands except per share data)

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale				
U.S. Government-sponsored agencies	$ 77,715	$ 99	$ (1,942)	$ 75,872
Municipal securities	97,447	1,706	(1,501)	97,652
Agency mortgage-backed securities	264,142	1,304	(4,006)	261,440
Private label mortgage-backed securities	63,704	97	(188)	63,613
Asset-backed securities	5,000	—	(45)	4,955
Corporate securities	38,632	220	(1,532)	37,320
Total available-for-sale	$ 546,640	$ 3,426	$ (9,214)	$ 540,852

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held-to-maturity				
Municipal securities	$ 10,142	$ 226	$ —	$ 10,368
Corporate securities	51,736	588	(132)	52,192
Total held-to-maturity	$ 61,878	$ 814	$ (132)	$ 62,560

The carrying value of securities at December 31, 2020 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	30,834	27,004
Five to ten years	76,212	74,848
After ten years	85,895	88,778
	192,941	190,630
Agency mortgage-backed securities	241,795	243,921
Private label mortgage-backed securities	57,268	58,116
Asset-backed securities	5,000	4,961
Total	$ 497,004	$ 497,628

	Held-to-Maturity	
	Amortized Cost	Fair Value
One to five years	$ 2,865	$ 2,987
ive to ten years	53,159	53,865
After ten years	12,199	12,600
Total	$ 68,223	$ 69,452

There were gross realized gains of $0.1 million and gross realized losses of $0.5 million resulting from sales of available-for-sale securities recognized during the twelve months ended December 31, 2020 and 2019, respectively. There were no gross realized gains or losses resulting from the sale of available-for-sale securities recognized during the twelve months ended December 31, 2018.

(Tabular dollar amounts in thousands except per share data)

As of December 31, 2020, the fair value of available-for-sale investment securities pledged as collateral was $354.6 million. The Company pledged the securities for various types of transactions, including FHLB advances, derivative financial instruments and to collateralize municipal deposits.

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, 2020 and 2019 was $226.5 million and $317.5 million, which is approximately 40% and 53%, respectively, of the Company's available-for-sale and held-to-maturity securities portfolio. These declines primarily resulted from fluctuations in market interest rates after purchase. Management believes the declines in fair value for these securities are temporary.

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

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

The unrealized losses on the Company's investments in securities issued by U.S. Government-sponsored agencies, municipal organizations and corporate entities were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not likely that the Company will be required to sell the investments before recovery of their amortized cost bases, which may not be until maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2020.

Agency Mortgage-Backed, Private-Label Mortgage-Backed and Asset-Backed Securities

The unrealized losses on the Company's investments in agency mortgage-backed, private-label mortgage-backed and asset-backed securities were caused by interest rate changes. The Company expects to recover the amortized cost bases over the term of the securities. Because the Company does not intend to sell the investments and it is not likely that the Company will be required to sell the investments before recovery of their amortized cost bases, which may not be until maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2020.

The following tables show the securities portfolio's gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2020 and 2019:

	December 31, 2020					
	Less Than 12 Months		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	$ —	$ —	$ 52,351	$ (1,652)	$ 52,351	$ (1,652)
Municipal securities	18,731	(114)	23,519	(617)	42,250	(731)
Agency mortgage-backed securities	38,987	(276)	45,297	(2,189)	84,284	(2,465)
Private label mortgage-backed securities	1,277	(1)	558	(1)	1,835	(2)
Asset-backed securities	—	—	4,961	(39)	4,961	(39)
Corporate securities	—	—	20,406	(1,594)	20,406	(1,594)
Total	$ 58,995	$ (391)	$ 147,092	$ (6,092)	$ 206,087	$ (6,483)

(Tabular dollar amounts in thousands except per share data)

	December 31, 2020					
	Less Than 12 Months		Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities held-to-maturity						
Corporate securities	17,456	(126)	2,999	(1)	20,455	(127)
Total	$ 17,456	$ (126)	$ 2,999	$ (1)	$ 20,455	$ (127)

	December 31, 2019					
	Less Than 12 Months		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	$ 4,820	$ (61)	$ 62,182	$ (1,881)	$ 67,002	$ (1,942)
Municipals	1,279	(1,501)	—	—	1,279	(1,501)
Agency mortgage-backed securities	91,159	(829)	83,212	(3,177)	174,371	(4,006)
Private label mortgage-backed securities	30,077	(180)	2,884	(8)	32,961	(188)
Asset-backed securities	—	—	4,955	(45)	4,955	(45)
Corporate securities	—	—	22,985	(1,532)	22,985	(1,532)
Total	$ 127,335	$ (2,571)	$ 176,218	$ (6,643)	$ 303,553	$ (9,214)

	December 31, 2019					
	Less Than 12 Months		Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities held-to-maturity						
Municipal securities	$ —	$ —	$ —	$ —	$ —	$ —
Corporate securities	13,977	(132)	—	—	13,977	(132)
Total	$ 13,977	$ (132)	$ —	$ —	$ 13,977	$ (132)

Amounts reclassified from accumulated other comprehensive loss and the affected line items in the consolidated statements of income during the years ended December 31, 2020, 2019 and 2018 were as follows:

Details About Accumulated Other Comprehensive Loss Components	Amounts Reclassified from Accumulated Other Comprehensive Loss for the Year Ended December 31,			Affected Line Item in the Statements of Income
		9	8	
Unrealized gains and losses on securities available-for-sale				
Gain (loss) realized in earnings	$ 139	$ (458)	$ —	Gain (loss) on sale of securities
Total reclassified amount before tax	139	(458)	—	Income before income taxes
Tax expense (benefit)	38	(124)	—	Income tax provision
Total reclassifications out of accumulated other comprehensive loss	$ 101	$ (334)	$ —	Net Income

(Tabular dollar amounts in thousands except per share data)

Note 4: Loans

Categories of loans include:

	December 31,	
		9
Commercial loans		
Commercial and industrial	$ 75,387	$ 96,420
Owner-occupied commercial real estate	89,785	86,726
Investor commercial real estate	13,902	12,567
Construction	110,385	60,274
Single tenant lease financing	950,172	995,879
Public finance	622,257	687,094
Healthcare finance	528,154	300,612
Small business lending	125,589	46,945
Total commercial loans	2,515,631	2,286,517
Consumer loans		
Residential mortgage	186,787	313,849
Home equity	19,857	24,306
Other consumer	275,692	295,309
Total consumer loans	482,336	633,464
Total commercial and consumer loans	2,997,967	2,919,981
Net deferred loan origination costs and premiums and discounts on purchased loans and other[(1)]	61,264	43,566
Total loans	3,059,231	2,963,547
Allowance for loan losses	(29,484)	(21,840)
Net loans	$ 3,029,747	$ 2,941,707

[(1)] Includes carrying value adjustments of $42.7 million related to terminated interest rate swaps associated with public finance loans as of December 31, 2020 and $21.4 million as of December 31, 2019 related to interest rate swaps associated with public finance loans.

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

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

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

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

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

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

Public Finance: These loans are made to governmental and not-for-profit entities to provide both tax-exempt and taxable loans for a variety of purposes including: short-term cash-flow needs; debt refinancing; economic development; quality of life projects; infrastructure improvements; energy conservation; renewable energy and equipment financing. The primary sources of repayment for public finance loans include pledged revenue sources including but not limited to: general obligations; property taxes; income taxes; tax increment revenue; utility revenue; gaming revenues; sales tax; and pledged general revenue. Certain loans may also include an additional collateral pledge of mortgaged property or a security interest in financed equipment. Public finance lending has been conducted primarily in the Midwest, but continues to expand nationwide.

Healthcare Finance: These loans are made to healthcare providers, primarily dentists, for practice acquisition financing or refinancing that occasionally includes owner-occupied commercial real estate and equipment purchases. The sources of repayment are primarily based on the identified cash flows from operations of the borrower and related entities if the real estate is held in a separate entity and secondarily on the underlying collateral provided by the borrower and guarantor resources. This portfolio segment was initially concentrated in the Western United States but has been growing rapidly throughout the rest of the country with the addition of a growing sales force located in Eastern and Midwestern markets.

(Tabular dollar amounts in thousands except per share data)

Small Business Lending: These loans are to small businesses and generally carry a partial guaranty from the U S. Small Business Administration ("SBA") under its 7(a) loan program. We generally sell the government guaranteed portion of SBA loans into the secondary market while retaining the non-guaranteed portion of the loan and the servicing rights. Loans in the small business lending portfolio have sources of repayment that are primarily based on the identified cash flows of the borrower and secondarily on any underlying collateral provided by the borrower. Loans may, but do not always, have a collateral shortfall. or SBA loans where the guaranteed portion is retained, the SBA guaranty provides a tertiary source of repayment to the Bank in event of borrower default. Cash flows of borrowers, however, may not be as expected and collateral securing these loans may fluctuate in value. Loans are made for a broad array of purposes including, but not limited to, providing operating cash flow, funding ownership changes, and facilitating equipment purchases. These loans also include loans originated by the Bank under the SBA's Paycheck Protection Program, which are fully guaranteed by the SBA. This portfolio segment has an emerging geography, with a nationwide focus.

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

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

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

The following tables present changes in the balance of the ALLL during the twelve months ended December 31, 2020, 2019, and 2018.

	Twelve Months Ended December 31, 2020				
	Balance, beginning of period	Provision (credit) charged to expense	Losses charged off	Recoveries	Balance, end of period
Allowance for loan losses:					
Commercial and industrial	$ 1,521	$ 80	$ (461)	$ 6	$ 1,146
Owner-occupied commercial real estate	561	545	(24)	—	1,082
Investor commercial real estate	109	46	—	—	155
Construction	380	812	—	—	1,192
Single tenant lease financing	11,175	1,815	—	—	12,990
Public finance	1,580	152	—	—	1,732
Healthcare finance	3,247	4,894	(743)	87	7,485
Small business lending	54	665	(110)	19	628
Residential mortgage	657	(122)	(20)	4	519
Home equity	46	(9)	—	11	48
Other consumer	2,510	447	(804)	354	2,507
Total	$ 21,840	$ 9,325	$ (2,162)	$ 481	$ 29,484

(Tabular dollar amounts in thousands except per share data)

	Twelve Months Ended December 31, 2019				
	Balance, beginning of period	Provision (credit) charged to expense	Losses charged off	Recoveries	Balance, end of period
Allowance for loan losses:					
Commercial and industrial	$ 1,384	$ 1,029	$ (921)	$ 29	$ 1,521
Owner-occupied commercial real estate	783	(222)	—	—	561
Investor commercial real estate	61	48	—	—	109
Construction	251	129	—	—	380
Single tenant lease financing	8,827	2,348	—	—	11,175
Public finance	1,670	(90)	—	—	1,580
Healthcare finance	1,264	1,983	—	—	3,247
Small business lending	203	(154)	—	5	54
Residential mortgage	1,079	(350)	(76)	4	657
Home equity	53	51	(68)	10	46
Other consumer	2,321	1,194	(1,292)	287	2,510
Total	$ 17,896	$ 5,966	$ (2,357)	$ 335	$ 21,840

	Twelve Months Ended December 31, 2018				
	Balance, beginning of period	Provision (credit) charged to expense	Losses charged off	Recoveries	Balance, end of period
Allowance for loan losses:					
Commercial and industrial	$ 1,724	$ (251)	$ (92)	$ 3	$ 1,384
Owner-occupied commercial real estate	762	21	—	—	783
Investor commercial real estate	85	(24)	—	—	61
Construction	423	(172)	—	—	251
Single tenant lease financing	7,872	955	—	—	8,827
Public finance	959	711	—	—	1,670
Healthcare finance	313	951	—	—	1,264
Small business lending	55	148	—	—	203
Residential mortgage	956	127	(9)	5	1,079
Home equity	70	(33)	—	16	53
Other consumer	1,751	1,459	(1,176)	287	2,321
Total	$ 14,970	$ 3,892	$ (1,277)	$ 311	$ 17,896

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2020 and 2019.

(Tabular dollar amounts in thousands except per share data)

	Loans			Allowance for Loan Losses		
December 31, 2020	**Ending Balance: Collectively Evaluated for Impairment**	**Ending Balance: Individually Evaluated for Impairment**	**Ending Balance**	**Ending Balance: Collectively Evaluated for Impairment**	**Ending Balance: Individually Evaluated for Impairment**	**Ending Balance**
Commercial and industrial	$ 74,870	$ 517	$ 75,387	$ 1,146	$ —	$ 1,146
Owner-occupied commercial real estate	87,947	1,838	89,785	1,082	—	1,082
Investor commercial real estate	13,902	—	13,902	155	—	155
Construction	110,385	—	110,385	1,192	—	1,192
Single tenant lease financing	942,848	7,324	950,172	9,900	3 090	12,990
Public finance	622,257	—	622,257	1,732	—	1,732
Healthcare finance	527,144	1,010	528,154	7,485	—	7,485
Small business lending	125,589	—	125,589	628	—	628
Residential mortgage	185,241	1,546	186,787	519	—	519
Home equity	19,857	—	19,857	48	—	48
Other consumer	275,642	50	275,692	2,507	—	2,507
Total	$ 2,985,682	$ 12,285	$2,997,967	$ 26,394	$ 3,090	$ 29,484

	Loans			Allowance for Loan Losses		
December 31, 2019	**Ending Balance: Collectively Evaluated for Impairment**	**Ending Balance: Individually Evaluated for Impairment**	**Ending Balance**	**Ending Balance: Collectively Evaluated for Impairment**	**Ending Balance: Individually Evaluated for Impairment**	**Ending Balance**
Commercial and industrial	$ 93,520	$ 2,900	$ 96,420	$ 1,412	$ 109	$ 1,521
Owner-occupied commercial real estate	81,063	5,663	86,726	561	—	561
Investor commercial real estate	12,567	—	12,567	109	—	109
Construction	60,274	—	60,274	380	—	380
Single tenant lease financing	991,199	4,680	995,879	9,515	1 660	11,175
Public finance	687,094	—	687,094	1,580	—	1,580
Healthcare finance	300,612	—	300,612	3,247	—	3,247
Small business lending	46,945	—	46,945	54	—	54
Residential mortgage	312,714	1,135	313,849	657	—	657
Home equity	24,306	—	24,306	46	—	46
Other consumer	295,266	43	295,309	2,510	—	2,510
Total	$ 2,905,560	$ 14,421	$2,919,981	$ 20,071	$ 1,769	$ 21,840

The Company utilizes a risk grading matrix to assign a risk grade to each of its commercial loans. A description of the general characteristics of the risk grades is as follows:

- “Pass” - Higher quality loans that do not fit any of the other categories described below.

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

(Tabular dollar amounts in thousands except per share data)

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

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

- "Loss" Loans that are considered uncollectible and of such little value that continuing to carry them as assets is not warranted.

The following tables present the credit risk profile of the Company's commercial and consumer loan portfolios based on rating category and payment activity as of December 31, 2020 and 2019.

	December 31, 2020			
	Pass	Special Mention	Substandard	Total
Commercial and industrial	$ 74,138	$ 732	$ 517	$ 75,387
Owner-occupied commercial real estate	84,292	3,655	1,838	89,785
Investor commercial real estate	13,902	—	—	13,902
Construction	110,385	—	—	110,385
Single tenant lease financing	932,830	10,018	7,324	950,172
Public finance	622,257	—	—	622,257
Healthcare finance	526,517	627	1,010	528,154
Small business lending	117,474	2,930	5,185	125,589
Total commercial loans	$ 2,481,795	$ 17,962	$ 15,874	$ 2,515,631

	December 31, 2020		
	Performing	Nonaccrual	Total
Residential mortgage	$ 185,604	$ 1,183	$ 186,787
Home equity	19,857	—	19,857
Other consumer	275,646	46	275,692
Total	$ 481,107	$ 1,229	$ 482,336

	December 31, 2019			
	Pass	Special Mention	Substandard	Total
Commercial and industrial	$ 89,818	$ 3,973	$ 2,629	$ 96,420
Owner-occupied commercial real estate	79,329	3,462	3,935	86,726
Investor commercial real estate	12,567	—	—	12,567
Construction	60,274	—	—	60,274
Single tenant lease financing	983,448	7,751	4,680	995,879
Public finance	687,094	—	—	687,094
Healthcare finance	300,612	—	—	300,612
Small business lending	46,945	—	—	46,945
Total commercial loans	$ 2,260,087	$ 15,186	$ 11,244	$ 2,286,517

(Tabular dollar amounts in thousands except per share data)

	December 31, 2019		
	Performing	**Nonaccrual**	**Total**
Residential mortgage	$ 313,088	$ 761	$ 313,849
Home equity	24,306	—	24,306
Other consumer	295,276	33	295,309
Total	$ 632,670	$ 794	$ 633,464

The following tables present the Company's loan portfolio delinquency analysis as of December 31, 2020 and 2019.

	December 31, 2020							
	30-59 Days Past Due	**60-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Current**	**Total loans**	**Nonaccrual Loans**	**Total Loans 90 Days or More Past Due and Accruing**
Commercial and industrial	$ —	$ —	$ —	$ —	$ 75,387	$ 75,387	$ —	$ —
Owner-occupied commercial real estate	—	—	—	—	89,785	89,785	1,838	—
Investor commercial real estate	—	—	—	—	13,902	13,902	—	—
Construction	—	—	—	—	110,385	110,385	—	—
Single tenant lease financing	—	—	4,680	4,680	945,492	950,172	7,116	—
Public finance	—	—	—	—	622,257	622,257	—	—
Healthcare finance	—	—	—	—	528,154	528,154	—	—
Small business lending	—	—	—	—	125,589	125,589	—	—
Residential mortgage	49	—	269	318	186,469	186,787	1,183	—
Home equity	—	15	—	15	19,842	19,857	—	—
Other consumer	176	51	5	232	275,460	275,692	46	—
Total	$ 225	$ 66	$ 4,954	$ 5,245	$2,992,722	$ 2,997,967	$ 10,183	$ —

	December 31, 2019							
	30-59 Days Past Due	**60-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Current**	**Total loans**	**Nonaccrual Loans**	**Total Loans 90 Days or More Past Due and Accruing**
Commercial and industrial	$ 15	$ 96	$ 122	$ 233	$ 96,187	$ 96,420	$ 226	$ —
Owner-occupied commercial real estate	—	—	464	464	86,262	86,726	464	—
Investor commercial real estate	—	—	—	—	12,567	12,567	—	—
Construction	—	—	—	—	60,274	60,274	—	—
Single tenant lease financing	—	4,680	—	4,680	991,199	995,879	4,680	—
Public finance	—	—	—	—	687,094	687,094	—	—
Healthcare finance	—	—	—	—	300,612	300,612	—	—
Small business lending	54	—	—	54	46,891	46,945	—	—
Residential mortgage	—	—	1,177	1,177	312,672	313,849	761	416
Home equity	—	—	—	—	24,306	24,306	—	—
Other consumer	240	107	—	347	294,962	295,309	33	—
Total	$ 309	$ 4,883	$ 1,763	$ 6,955	$ 2,913,026	$ 2,919,981	$ 6,164	$ 416

(Tabular dollar amounts in thousands except per share data)

The following tables present the Company's impaired loans as of December 31, 2020 and 2019.

	December 31, 2020			December 31, 2019		
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans without a specific valuation allowance						
Commercial and industrial	$ 517	$ 517	$ —	$ 2,693	$ 2,694	$ —
Owner-occupied commercial real estate	1,838	1,850	—	5,663	5 665	—
Single tenant lease financing	1,315	1,334	—	—	—	—
Healthcare finance	$ 1,010	$ 1,010	$ —	$ —	$ —	$ —
Residential mortgage	1,546	1,652	—	1,135	1,209	—
Other consumer	50	120	—	43	107	—
Total	6,276	6,483	—	9,534	9,675	—
Loans with a specific valuation allowance						
Commercial and industrial	$ —	$ —	$ —	$ 207	$ 244	$ 109
Single tenant lease financing	6,009	6,036	3,090	4,680	4,680	1,660
Residential mortgage	—	—	—	—	—	—
Total	6,009	6,036	3,090	4,887	4,924	1,769
Total impaired loans	$ 12,285	$ 12,519	$ 3,090	$ 14,421	$ 14,599	$ 1,769

The following table presents average balances and interest income recognized for impaired loans during the twelve months ended December 31, 2020, 2019, and 2018.

	Twelve Months Ended					
	December 31, 2020		December 31, 2019		December 31, 2018	
	Average Balance	Interest Income	Average Balance	Interest Income	Average Balance	Interest Income
Loans without a specific valuation allowance						
Commercial and industrial	$ 1,037	$ 57	$ 3,293	$ 289	$ 5,961	$ 426
Owner-occupied commercial real estate	3,790	60	3,292	170	833	44
Healthcare finance	386	16	—	—	—	—
Small business lending	—	—	331	94	60	15
Residential mortgage	1,333	—	2,265	—	720	—
Home equity	—	—	10	—	61	—
Other consumer	57	—	68	1	108	—
Total	6,603	133	9,259	554	7,743	485
Loans with a specific valuation allowance						
Commercial and industrial	169	3	1,077	—	—	—
Single tenant lease financing	5,671	4	1,464	—	—	—
Total	5,840	7	2,541	—	—	—
Total impaired loans	$ 12,443	$ 140	$ 11,800	$ 554	$ 7,743	$ 485

The Company had no residential mortgage other real estate owned as of December 31, 2020 and December 31, 2019. There were no loans in the process of foreclosure at December 31, 2020 and December 31, 2019.

Troubled Debt Restructurings

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

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

In the course of working with troubled borrowers, the Company may choose to restructure the contractual terms of certain loans in an effort to work out an alternative payment schedule with the borrower in order to optimize the collectability of the loan. Any loan modification is reviewed by the Company to identify whether a TDR has occurred when the Company grants a concession to the borrower that it would not otherwise consider based on economic or legal reasons related to a borrower's financial difficulties. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status or the loan may be restructured to secure additional collateral and/or guarantees to support the debt, or a combination of the two.

There were three commercial and industrial loan classified as new TDRs during the twelve months ended December 31, 2020 with a pre-modification and post-modification outstanding recorded investment of $2.6 million. The Company did not allocate a specific allowance for these loans as of December 31, 2020 and the modifications consisted of interest only payments for a period of time and an extension of the maturity date. There were four commercial and industrial loans classified as new TDRs during the twelve months ended December 31, 2019 with a pre-modification and post-modification outstanding recorded investment of $2.0 million. The Company did not allocate a specific allowance for these loans as of December 31, 2019 and the modifications consisted of interest only payments for a period of time. There were no loans classified as new TDRs during the twelve months ended December 31, 2018.

There were no performing TDRs which had payment defaults within the twelve months following modification during the years ended December 31, 2020, 2019 and 2018.

Non-TDR Loan Modifications due to COVID-19

The "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus" was issued by our banking regulators on March 22, 2020. This guidance encourages financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations due to the effects of COVID-19.

Additionally, Section 4013 of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") provides that loan modifications due to the impact of COVID-19 that would otherwise be classified as TDRs under GAAP will not be so classified. Modifications within the scope of this relief are in effect from the period beginning March 1, 2020 until January 1, 2022 or 60 days after the date on which the national emergency related to the COVID-19 pandemic formally terminates. As of December 31, 2020, the Company had $11.9 million in non-TDR loan modifications due to COVID-19.

U.S. Small Business Administration Paycheck Protection Program

Section 1102 of the CARES Act created the PPP, which is jointly administered by the SBA and the Department of the Treasury. The PPP is designed to provide economic relief to small businesses nationwide adversely impacted by COVID-19. On December 27, 2020, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act was enacted, extending the Authority to continue to make PPP loans, including a provision for second draw PPP loans, through March 31, 2021. These loans may be 100% forgiven if certain conditions, including predefined SBA approved use of the funds and certain borrower certifications, are satisfied and are fully guaranteed by the SBA. As a preferred SBA lender, we assisted our clients in participating in the PPP to help them maintain their workforces in an uncertain and challenging environment. The loans bear an interest rate of 1.00% and we received weighted average origination fees of 3.86% of the amount funded, or approximately $2.3 million in total. The Company received this fee revenue from the SBA in late June and it will be deferred over the life of the PPP loans and recognized as interest income. As of December 31, 2020, we had 376 PPP loans totaling $50.6 million outstanding.

(Tabular dollar amounts in thousands except per share data)

Note 5: Premises and Equipment

The following table summarizes premises and equipment at December 31, 2020 and 2019.

	December 31,	
		19
Land	$ 2,500	$ 2,500
Construction in process	28,956	4,386
Right of use leased asset	819	1,602
Building and improvements	5,819	5,618
Furniture and equipment	10,671	9,689
Less: accumulated depreciation	(10,973)	(9,165)
	$ 37,590	$ 14,630

During 2018, the Bank's subsidiary, SPF15, Inc., ("SPF15") acquired several parcels of land consisting of approximately 3.3 acres located in Fishers, Indiana for approximately $10.2 million, inclusive of acquisition costs. Pursuant to a Land Acquisition Agreement with the City of Fishers, Indiana (the "City"), and its Redevelopment Commission, among others, the City agreed to reimburse SPF15 for the purchase price and other specified land acquisition costs. The Land Acquisition Agreement was replaced by a Project Agreement in December 2018, which extended the reimbursement deadline to October 31, 2019 and made additional financial incentives available to the Company for constructing an office building and associated parking garage on the property. As contemplated under the Project Agreement, the City transferred to SPF15 two additional parcels of land consisting of approximately 0.75 acres and SPF15 transferred to the ishers Town Hall Building Corporation and third parties a certain parcel of land consisting of approximately 1.65 acres in connection with the development of the property. On October 25, 2019, the City satisfied its reimbursement obligation, resulting in the payment of SPF15 of an aggregate of $11.1 million for purchase prices and other specified land acquisition costs.

Site demolition has been completed and construction of a multi-use development, to include the Company's future headquarters, began on October 7, 2019. Development of the site is estimated to be substantially completed by the fourth quarter 2021.

Subsequent to the end of fiscal 2020, on February 16, 2021, the Company entered into an agreement to sell its current headquarters and certain equipment currently located in the building to a third party. The sale price is $8.9 million in cash payable in full at closing. The closing remains subject to customary conditions. At December 31, 2020 the net book value of the land, building and improvements was $5.4 million. As a part of the sale agreement, the buyer has agreed to lease the office building back to the Company through December 31, 2021, with an option to extend up to 90 days beyond that date. The Bank is expected to continue to sublease substantially all of the office space for the duration of the leaseback arrangement.

Note 6: Leases

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property or equipment for a period of time in exchange for consideration. On January 1, 2019, the Company adopted ASU 2016-02 *Leases (Topic 842)* and elected the optional transition method, which allows the Company to not separate non-lease components from the associated lease component if certain conditions are met. In addition, the Company elected not to adjust prior comparative periods. Refer to Note 22 for further information regarding transition guidance related to the new standard.

The Company has three operating leases that are used for general office operations with remaining lease terms of two to three years. With the adoption of ASU 2016-02, operating lease agreements are required to be recognized on the consolidated balance sheets as a right-of-use asset and a corresponding lease liability.

The following table shows the components of lease expense.

(in thousands)	Twelve Months Ended		
	December 31,	**December 31, 9**	**December 31, 18**
Operating lease cost	$ 913	$ 758	$ 724

The following table shows supplemental cash flow information related to leases.

(in thousands)	Twelve Months Ended	
	December 31, 2020	**December 31, 2019**
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	982	814

The following table shows the operating leases' impact on the consolidated balance sheets. The Company elected not to include short-term leases (leases with original terms of 12 months or less) or equipment leases, as those amounts are insignificant. The Company's leases do not provide an implicit rate. The discount rate utilized to determine the present value of lease payments is the Company's incremental borrowing rate based on the information available at the lease inception date. The incremental borrowing rate is the rate of interest the Company would have to pay to borrow on a collateralized basis over a similar term in an amount equal to the lease payments in a similar economic environment.

(dollars in thousands)	**December 31, 2020**	**December 31, 2019**
Operating lease right-of-use assets	$ 819	$ 1,602
Operating lease liabilities	819	1,602
Weighted-average remaining lease term (years)		
Operating leases	2	2.4
Weighted-average discount rate		
Operating leases	2.0 %	2.0 %

The following table shows the future minimum payments of operating leases with initial or remaining terms of one year or more as of December 31, 2020.

(in thousands)		
Twelve months ended December 31, 2020		
2021	$	423
2022		238
2023		116
2024		—
2025		—
Thereafter		—
Total lease payments		777
Less imputed interest		(17)
Total	$	760

Note 7: Goodwill

As of December 31, 2020 and 2019, the carrying amount of goodwill was $4.7 million. There have been no changes in the carrying amount of goodwill for the three years ended December 31, 2020, 2019, and 2018. Goodwill is tested for impairment on an annual basis as of August 31, or whenever events or changes in circumstances indicate the carrying amount of goodwill exceeds its implied fair value. The annual test indicated no impairment existed as of August 31, 2020 and no events or changes in circumstances have occurred since the August 31, 2020 annual impairment test that would suggest it was more likely than not goodwill impairment existed.

Note 8: Servicing Asset

Activity for the servicing asset and the related changes in fair value for the twelve months ended December 31, 2020 and 2019 are shown in the table below.

(in thousands)	Twelve Months Ended	
	December 31, 2020	December 31, 2019
Beginning balance	$ 2,481	$ —
Additions	1,520	2,481
Changes in fair value	(432)	—
Ending balance	$ 3,569	$ 2,481

Loans serviced for others are not included in the consolidated balance sheets. The unpaid principal balances of these loans serviced for others as of December 31, 2020 and December 31, 2019 are shown in the table below.

(in thousands)	December 31, 2020	December 31, 2019
Loan portfolios serviced for:		
SBA guaranteed loans	$ 165,961	$ 103,981
Total	$ 165,961	$ 103,981

Loan servicing revenue totaled $1.2 million during the twelve months ended December 31, 2020. There was $0.2 million of loan servicing revenue during the twelve months ended December 31, 2019. Loan servicing asset revaluation, which represents the change in fair value of the servicing asset, resulted in a $0.4 million downward valuation for twelve months ended December 31, 2020. There was no loan servicing asset revaluation during the twelve months ended December 31, 2019.

The fair value of servicing rights is highly sensitive to changes in underlying assumptions. Though fluctuations in prepayment speeds and changes in secondary market premiums generally have the most substantial impact on the fair value of servicing rights, other influencing factors include changing economic conditions, changes to the discount rate assumption and the weighted average life of the servicing portfolio. Measurement of fair value is limited to the conditions existing and the assumptions used as of a particular point in time; however, those assumptions may change over time. Refer to Note 17 - Fair Value of Financial Instruments for further details.

(Tabular dollar amounts in thousands except per share data)

Note 9: Deposits

The following table presents the composition of the Company's deposit base as of December 31, 2020 and 2019.

	December 31,	
		19
Noninterest-bearing demand deposit accounts	$ 96,753	$ 57,115
Interest-bearing demand deposit accounts	188,645	129,020
Regular savings accounts	43,200	29,616
Money market accounts	1,350,566	786,390
Certificates of deposits	1,289,319	1,613,453
Brokered deposits	302,402	538,369
Total deposits	$ 3,270,885	$ 3,153,963
Time deposits (in the amount of $250 or more)	$ 403,253	$ 536,028

The following table presents time deposit maturities by year as of December 31, 2020.

2021	$ 883,461
2022	242,053
2023	99,488
2024	74,215
2025	26,424
Thereafter	250
	$ 1,325,891

Note 10: FHLB Advances

The Company had outstanding FHLB advances of $514.9 million and $514.9 million as of December 31, 2020 and 2019, respectively. As of December 31, 2020, the stated interest rates on the Company's outstanding FHLB advances ranged from 0.24% to 3.26%, with a weighted average interest rate of 1.30%. All advances are collateralized by residential mortgage loans and commercial real estate loans pledged and held by the Company and investment securities pledged by the Company and held in safekeeping with the FHLB. Residential mortgage loans pledged were approximately $125.1 million and $166.6 million as of December 31, 2020 and 2019, respectively, and commercial real estate loans pledged were approximately $960.5 million and $956.3 million as of December 31, 2020 and 2019, respectively. The fair value of investment securities pledged to the FHLB was approximately $351.0 million and $356.8 million as of December 31, 2020 and 2019, respectively. Based on this collateral and the Company's holdings of FHLB stock, the Company is eligible to borrow up to an additional $474.3 million at year-end 2020. As of December 31, 2020, the Company had $305.0 million of putable advances with the FHLB.

The Company's FHLB advances are scheduled to mature according to the following schedule:

	Amount
2021	$ 110,000
2022	—
2023	35,000
2024	145,020
2025	90,000
Thereafter	134,896
	$ 514,916

(Tabular dollar amounts in thousands except per share data)

Note 11: Subordinated Debt

In October 2015, the Company entered into a term loan in the principal amount of $10.0 million, evidenced by a term note due 2025 (the “2025 Note”). The 2025 Note bore a fixed interest rate of 6.4375% per year, payable quarterly, and was scheduled to mature on October 1, 2025. The 2025 Note was an unsecured subordinated obligation of the Company and could be repaid, without penalty, on any interest payment date on or after October 15, 2020. The 2025 Note is intended to qualify as Tier 2 capital under regulatory guidelines. Subsequent to the end of the fiscal year, the Company redeemed the 2025 Note on January 4, 2021.

In September 2016, the Company issued $25.0 million aggregate principal amount of 6.0% Fixed-to-Floating Rate Subordinated Notes due 2026 (the “2026 Notes”) in a public offering. The 2026 Notes initially bear a fixed interest rate of 6.00% per year to, but excluding, September 30, 2021, and thereafter a floating rate equal to the then-current three-month London Interbank Offered Rate (“LIBOR”) plus 485 basis points. LIBOR will be phased-out after 2021 and the transition to another benchmark rate could have an adverse effect on the 2026 Notes. Refer to Part I Item 1A. Risk Factors for more information on the LIBOR phase out. All interest on the 2026 Notes is payable quarterly. The 2026 Notes are scheduled to mature on September 30, 2026. The 2026 Notes are unsecured subordinated obligations of the Company and may be repaid, without penalty, on any interest payment date on or after September 30, 2021. The 2026 Notes are intended to qualify as Tier 2 capital under regulatory guidelines.

In June 2019, the Company issued $37.0 million aggregate principal amount of 6.0% Fixed-to-Floating Rate Subordinated Notes due 2029 (the “2029 Notes”) in a public offering. The 2029 Notes initially bear a fixed interest rate of 6.0% per year to, but excluding, June 30, 2024, and thereafter a floating rate equal to the then-current benchmark rate (initially three-month LIBOR rate) plus 411 basis points. All interest on the 2029 Notes is payable quarterly. The 2029 Notes are scheduled to mature on June 30, 2029. The 2029 Notes are unsecured subordinated obligations of the Company and may be repaid, without penalty, on any interest payment date on or after June 30, 2024. The 2029 Notes are intended to qualify as Tier 2 capital under regulatory guidelines.

In October 2020, the Company entered into a term loan in the principal amount of $10.0 million, evidenced by a term note due 2030 (the “2030 Note”). The 2030 Note initially bears a fixed interest rate of 6.0% per year to, but excluding, November 1, 2025 and thereafter at a floating rate equal to the then-current benchmark rate (initially three-month Term SOFR plus 5.795%). The 2030 Note is an unsecured subordinated obligation of the Company and may be repaid, without penalty, on any interest payment date on or after November 1, 2025. The 2030 Note is intended to qualify as Tier 2 capital under regulatory guidelines. The Company used the net proceeds from the issuance of the 2030 Note to redeem the 2025 Note as discussed above.

The following table presents the principal balance and unamortized discount and debt issuance costs for the 2025 Note, the 2026 Notes, the 2029 Note and the 2030 Notes as of December 31, 2020 and 2019.

	December 31, 2020		December 31, 2019	
	Principal	Unamortized Discount and Debt Issuance Costs	Principal	Unamortized Discount and Debt Issuance Costs
2025 Note	$ 10,000	(114)	10,000	(138)
2026 Notes	25,000	(715)	25,000	(839)
2029 Notes	37,000	(1,337)	37,000	(1,495)
2030 Notes	10,000	(231)	—	—
Total	$ 82,000	(2,397)	72,000	(2,472)

Note 12: Benefit Plans

401(k) Plan

The Company has a 401(k) plan established for substantially all full-time employees, as defined in the plan. Employee contributions are limited to the maximum established by the Internal Revenue Service on an annual basis. The Company has elected to match contributions equal to 100% of the first 1% of employee deferrals and then 50% on deferrals over 1% up to a maximum of 6% of an individual's total eligible salary, as defined in the plan, which vests immediately. Discretionary employer-matching contributions begin vesting immediately at a rate of 50% per year of employment and are fully vested after the completion of two years of employment. Contributions totaled approximately $0.8 million, $0.6 million and $0.5 million in the twelve months ended December 31, 2020, 2019 and 2018, respectively.

(Tabular dollar amounts in thousands except per share data)

Employment Agreement

The Company has entered into an employment agreement with its Chief Executive Officer that provides for an annual base salary and an annual bonus, if any, as determined from time to time by the Compensation Committee. The annual bonus is to be determined with reference to the achievement of annual performance objectives established by the Compensation Committee for the Chief Executive Officer and other senior officers. The agreement also provides that the Chief Executive Officer may be awarded additional compensation, benefits or consideration as the Compensation Committee may determine.

The agreement provides for the continuation of salary and certain other benefits for a specified period of time upon termination of his employment under certain circumstances, including his resignation for "good reason" or termination by the Company without "cause" at any time or any termination of his employment for any reason within twelve months following a "change in control," along with other specific conditions.

Equity Incentive Plan

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

The Company recorded $2.1 million, $1.7 million, and $1.6 million of share-based compensation expense for the years ended December 31, 2020, 2019, and 2018, respectively, related to awards made under the 2013 Plan.

The following table summarizes the status of the 2013 Plan awards as of December 31, 2020, and activity for the year ended December 31, 2020:

	Restricted Stock Units	Weighted-Average Grant Date Fair Value Per Share	Restricted Stock Awards	Weighted-Average Grant Date Fair Value Per Share	Deferred Stock Units	Weighted-Average Grant Date Fair Value Per Unit
Unvested at January 1, 2020	107,244	$ 29.03	—	$ —	—	$ —
Granted	66,895	27.56	16,090	25.58	12	17.87
Vested	(61,154)	29.77	(14,452)	25.35	(12)	17.87
Forfeited	—	—	(1,638)	27.56	—	—
Unvested at December 31, 2020	112,985	$ 27.76	—	$ —	—	$ —

As of December 31, 2020, the total unrecognized compensation cost related to unvested awards was $2.1 million, with a weighted-average expense recognition period of 1.6 years.

Directors Deferred Stock Plan

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

(Tabular dollar amounts in thousands except per share data)

The following table summarizes the status of deferred stock rights related to the Directors Deferred Stock Plan for the year ended December 31, 2020.

	Deferred Rights
Outstanding, beginning of year	84,505
Granted	852
Exercised	—
Outstanding, end of year	85,357

All deferred stock rights granted during 2020 were additional rights issued in lieu of cash dividends payable on outstanding deferred stock rights.

Note 13: Income Taxes

The provision for income taxes consists of the following:

	December 31,		
		9	18
Current	$ 8,563	$ 6,319	$ 1,074
Deferred	(4,118)	(4,402)	978
Total	$ 4,445	$ 1,917	$ 2,052

Income tax provision is reconciled to the statutory rate applied to pre-tax income. The statutory rate was 21%, 21% and 21% at December 31, 2020, 2019 and 2018, respectively.

	December 31,		
		9	18
Statutory rate times pre-tax income	$ 7,119	$ 5,703	$ 5,030
(Subtract) add the tax effect of:			
Income from tax-exempt securities and loans	(4,464)	(4,881)	(3,833)
State income tax, net of federal tax effect	1,765	1,285	1,164
Bank-owned life insurance	(200)	(198)	(200)
Tax credits	(178)	(181)	(180)
Other differences	403	189	71
Total income taxes	$ 4,445	$ 1,917	$ 2,052

The net deferred tax asset at December 31, 2020 and 2019 consists of the following:

	December 31,	
		19
Deferred tax assets (liabilities)		
Allowance for loan losses	$ 7,961	$ 5,897
Net unrealized losses on available for sale securities and hedged items	5,800	5,021
Fair value adjustments	1,117	(1,011)
Depreciation	(107)	(257)
Deferred compensation and accrued payroll	1,533	1,358
Loan origination costs	(1,281)	(1,181)
Prepaid assets	(553)	(449)
Other	337	513
Total deferred tax assets, net	$ 14,807	$ 9,891

Note 14: Related Party Transactions

In the normal course of business, the Company may enter into transactions with various related parties. In management's opinion, such loans, other extensions of credit, and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. urther, in management's opinion, these loans did not involve more than the normal risk of collectability or present other unfavorable features.

Management evaluated related party loans and extensions of credit at December 31, 2020 and 2019, and deemed the balances immaterial. Deposits from related parties held by the Company at December 31, 2020 and 2019 totaled $33.0 million and $28.3 million, respectively.

Note 15: Regulatory Capital Requirements

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

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

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

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

(Tabular dollar amounts in thousands except per share data)

The following tables present actual and required capital ratios as of December 31, 2020 and 2019 for the Company and the Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2020 and 2019 based on the Basel III Capital Rules. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

	Actual		Minimum Capital Required - Basel III		Minimum Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
As of December 31, 2020:						
Common equity tier 1 capital to risk-weighted assets						
Consolidated	$ 342,159	11.31 %	$ 211,828	7.00 %	N A	N/A
Bank	377,678	12.49 %	211,612	7.00 %	196,497	6.50 %
Tier 1 capital to risk-weighted assets						
Consolidated	342,159	11.31 %	257,220	8.50 %	N A	N/A
Bank	377,678	12.49 %	256,957	8.50 %	241,842	8.00 %
Total capital to risk-weighted assets						
Consolidated	451,246	14.91 %	317,742	10.50 %	N A	N/A
Bank	407,162	13.47 %	317,418	10.50 %	302,303	10.00 %
Leverage ratio						
Consolidated	342,159	7.95 %	172,154	4.00 %	N A	N/A
Bank	377,678	8.78 %	172,036	4.00 %	215,045	5.00 %

	Actual		Minimum Capital Required - Basel III		Minimum Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
As of December 31, 2019:						
Common equity tier 1 capital to risk-weighted assets						
Consolidated	$ 313,803	10.84 %	$ 202,661	7.00 %	N A	N/A
Bank	341,242	11.80 %	202,480	7.00 %	188,017	6.50 %
Tier 1 capital to risk-weighted assets						
Consolidated	313,803	10.84 %	246,088	8.50 %	N A	N/A
Bank	341,242	11.80 %	245,869	8.50 %	231,406	8.00 %
Total capital to risk-weighted assets						
Consolidated	405,171	13.99 %	303,991	10.50 %	N A	N/A
Bank	363,082	12.55 %	303,720	10.50 %	289,257	10.00 %
Leverage ratio						
Consolidated	313,803	7.64 %	164,219	4.00 %	N A	N/A
Bank	341,242	8.32 %	164,121	4.00 %	205,151	5.00 %

Note 16: Commitments and Credit Risk

In the normal course of business, the Company makes various commitments to extend credit which are not reflected in the accompanying consolidated financial statements. At December 31, 2020 and 2019, the Company had outstanding loan commitments totaling approximately $263.9 million and $254 4 million, respectively.

In addition, the Company is a limited partner in a Small Business Investment Company fund (the "SBIC und"). The Company's total commitment to the SBIC und is $4.0 million. As of December 31, 2020, the Company had contributed $2.5 million of capital, leaving a remaining commitment of $1.5 million.

Capital Commitments

Capital expenditures contracted for at the balance sheet date but not yet recognized in the financial statements are associated with the construction of premises intended to house our future corporate headquarters. The Company has entered into construction-related contracts in the amount of $65.1 million. As of December 31, 2020, $37.9 million of such contract commitments had not yet been incurred. These commitments are due within 2 years.

Note 17: Fair Value of Financial Instruments

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. ASU Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

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

Available-for-Sale Securities

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

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

In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. air values are calculated using discounted cash flows. Discounted cash flows are calculated based off of the anticipated future cash flows updated to incorporate loss severities. Rating agency and industry research reports as well as default and deferral activity are reviewed and incorporated into the calculation. The Company did not own any securities classified within Level 3 of the hierarchy as of December 31, 2020 or 2019.

Loans Held-for-Sale (mandatory pricing agreements)

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

(Tabular dollar amounts in thousands except per share data)

ervicing Asset

Fair value is based on a loan-by-loan basis taking into consideration the original to maturity of the loans, the current age of the loans and the remaining term to maturity. The valuation methodology utilized for the servicing assets begins with generating estimated future cash flows for each servicing asset, based on their unique characteristics and market-based assumptions for prepayment speeds and costs to service. The present value of the future cash flows is then calculated utilizing market-based discount rate assumptions (Level 3).

Interest Rate Swap Agreements

The fair values of interest rate swap agreements are estimated using current market interest rates as of the balance sheet date and calculated using discounted cash flows that are observable or that can be corroborated by observable market data (Level 2).

Forward Contracts

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

Interest Rate Lock Commitments

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

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2020 and 2019.

		December 31, 2020		
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government-sponsored agencies	$ 60,545	$ —	$ 60,545	$ —
Municipal securities	82,489	—	82,489	—
Agency mortgage-backed securities	243,921	—	243,921	—
Private-label mortgage-backed securities	58,116	—	58,116	—
Asset-backed securities	4,961	—	4,961	—
Corporate securities	47,596	—	47,596	—
Total available-for-sale securities	$ 497,628	$ —	$ 497,628	$ —
Servicing asset	3,569	—	—	3,569
Interest rate swaps liabilities	(17,606)	—	(17,606)	—
Loans held-for-sale (mandatory pricing agreements)	26,341	—	26,341	—
Forward contracts	(640)	(640)	—	—
IRLCs	3,361	—	—	3,361

(Tabular dollar amounts in thousands except per share data)

		December 31, 2019		
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government-sponsored agencies	$ 75,872	$ —	$ 75,872	$ —
Municipal securities	97,652	—	97,652	—
Agency mortgage-backed securities	261,440	—	261,440	—
Private-label mortgage-backed securities	63,613	—	63,613	—
Asset-backed securities	4,955	—	4,955	—
Corporate securities	37,320		37,320	
Total available-for-sale securities	$ 540,852	$ —	$ 540,852	$ —
Servicing asset	2,481	—	—	2,481
Interest rate swaps liabilities	(37,786)	—	(37,786)	—
Loans held-for-sale (mandatory pricing agreements)	56,097	—	56,097	—
Forward contracts	(153)	(153)	—	—
IRLCs	910	—	—	910

The following table reconciles the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated balance sheets using significant unobservable (Level 3) inputs.

	Servicing Asset	Interest Rate Lock Commitments
Balance as of January 1, 2018	$ —	$ 551
Total realized losses		
Additions	—	(162)
Balance, December 31, 2018	—	389
Total realized gains		
Additions	2,481	521
Balance, December 31, 2019	2,481	910
Total realized gains		
Additions	1,520	2,451
Change in fair value	(432)	—
Balance, December 31, 2020	$ 3,569	$ 3,361

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

Impaired Loans (Collateral Dependent)

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

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

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

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	4,026	—	—	4,026

		9		
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	3,019	—	—	3,019

Unobservable (Level 3) Inputs

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

(dollars in thousands)	Fair Value at December 31, 2020	Valuation Technique	Significant Unobservable Inputs	Range	Weighted-Average Range
Impaired loans	$ 4,026	Fair value of collateral	Discount for type of property and current market conditions	10%	10%
IRLCs	3,361	Discounted cash flow	Loan closing rates	44% - 100%	87%
			Prepayment speeds	0% - 25%	12.1%
Servicing asset	3,569	Discounted cash flow	Discount rate	10%	10%

(dollars in thousands)	Fair Value at December 31, 2019	Valuation Technique	Unobservable Inputs	Range	Weighted - Average Range
Impaired loans	$ 3,019	Fair value of collateral	Discount to reflect current market conditions	10%	10%
IRLCs	910	Discounted cash flow	Loan closing rates	50% - 100%	84%
Servicing asset	2,481	Discounted cash flow	Prepayment speeds	0% - 25%	13.5%

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

Cash and Cash Equivalents

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

Held-to-Maturity Securities

Fair values are determined by using models that are based on security-specific details, as well as relevant industry and economic factors. The most significant of these inputs are quoted market prices, and interest rate spreads on relevant benchmark securities.

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

The fair value of these loans approximates carrying value.

Loans

The fair value of loans is estimated on an exit price basis incorporating discounts for credit, liquidity and marketability factors.

Accrued Interest Receivable

The fair value of these financial instruments approximates carrying value.

Federal Home Loan Bank of Indianapolis Stock

The fair value approximates carrying value.

Deposits

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

Advances from Federal Home Loan Bank

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

Subordinated Debt

The fair value of the Company's publicly traded subordinated debt is obtained from quoted market prices. The fair value of the Company's remaining subordinated debt is estimated using discounted cash flow analysis, based on current borrowing rates for similar types of debt instruments.

Accrued Interest Payable

The fair value of these financial instruments approximates carrying value.

Commitments

The fair value of commitments to extend credit are based on fees currently charged to enter into similar agreements with similar maturities and interest rates. The Company determined that the fair value of commitments was zero based on the contractual value of outstanding commitments at December 31, 2020 and 2019.

(Tabular dollar amounts in thousands except per share data)

The following tables summarize the carrying value and estimated fair value of all financial assets and liabilities at December 31, 2020 and 2019:

	December 31, 2020				
			Fair Value Measurements Using		
	Carrying Amount	Fair Value	Quoted Prices In Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 419,806	$ 419,806	$ 419,806	$ —	$ —
Securities held-to-maturity	68,223	69,452	—	69,452	—
Loans held-for-sale (best efforts pricing agreements)	13,243	13,243	—	13,243	—
Net loans	3,029,747	3,084,375	—	—	3,084,375
Accrued interest receivable	17,416	17,416	17,416	—	—
Federal Home Loan Bank of Indianapolis stock	25,650	25,650	—	25,650	—
Deposits	3,270,885	3,307,038	1,679,164	—	1,627,874
Advances from Federal Home Loan Bank	514,916	541,945	—	541,945	—
Subordinated debt	79,603	83,682	63,325	20,357	—
Accrued interest payable	1,439	1,439	1,439	—	—

	December 31, 2019				
			Fair Value Measurements Using		
	Carrying Amount	Fair Value	Quoted Prices In Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 327,361	$ 327,361	$ 327,361	$ —	$ —
Securities held-to-maturity	61,878	62,560	—	62,560	—
Net loans	2,941,707	2,876,688	—	—	2,876,688
Accrued interest receivable	18,607	18,607	18,607	—	—
Federal Home Loan Bank of Indianapolis stock	25,650	25,650	—	25,650	—
Deposits	3,153,963	3,232,065	1,002,141	—	2,229,924
Advances from Federal Home Loan Bank	514,910	520,950	—	520,950	—
Subordinated debt	69,528	75,206	64,996	10,210	—
Accrued interest payable	3,767	3,767	3,767	—	—

Note 18: Mortgage Banking Activities

The Company’s residential real estate lending business originates mortgage loans for customers and sells a majority of the originated loans into the secondary market. The Company hedges its mortgage banking pipeline by entering into forward contracts for the future delivery of mortgage loans to third-party investors and entering into IRLCs with potential borrowers to fund specific mortgage loans that will be sold into the secondary market. To facilitate the hedging of the loans, the Company has elected the fair value option for loans originated and intended for sale in the secondary market under mandatory pricing agreements. Changes in the fair value of loans held-for-sale, IRLCs and forward contracts are recorded in the mortgage banking activities line item within noninterest income. Refer to Note 19 for further information on derivative financial instruments.

(Tabular dollar amounts in thousands except per share data)

During the years ended December 31, 2020, 2019, and 2018, the Company originated mortgage loans held-for-sale of $878.2 million, $627.6 million, and $364.6 million, respectively, and received $923.8 million, $601.2 million, and $376.5 million from the sale of mortgage loans, respectively, into the secondary market.

The following table provides the components of income from mortgage banking activities for the years ended December 31, 2020, 2019, and 2018.

	Year Ended December 31,		
		9	18
Gain on loans sold	$ 22,826	$ 10,275	$ 6,102
(Loss) Gain resulting from the change in fair value of loans held-for-sale	(94)	538	57
Gain (loss) resulting from the change in fair value of derivatives	1,961	728	(441)
Net revenue from mortgage banking activities	$ 24,693	$ 11,541	$ 5,718

(Tabular dollar amounts in thousands except per share data)

Note 19: 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 interest rate swap agreements as part of its asset/liability management strategy to help manage its interest rate risk position. Additionally, the Company enters into forward contracts for the future delivery of mortgage loans to third-party investors and enters into IRLCs with potential borrowers to fund specific mortgage loans that will be sold into the secondary market. The forward contracts are entered into in order to economically hedge the effect of changes in interest rates resulting from the Company's commitment to fund the loans.

The Company entered into various interest rate swap agreements designated and qualifying as accounting hedges during the reported periods. Designating an interest rate swap as an accounting hedge allows the Company to recognize gains and losses, less any ineffectiveness, in the income statement within the same period that the hedged item affects earnings. The Company includes the gain or loss on the hedged items in the same line item as the offsetting loss or gain on the related interest rate swaps. or derivative instruments that are designated and qualify as cash flow hedges, any gains or losses related to changes in fair value are recorded in accumulated other comprehensive loss, net of tax. The fair value of interest rate swaps with a positive fair value are reported in accrued income and other assets in the consolidated balance sheets while interest rate swaps with a negative fair value are reported in accrued expenses and other liabilities in the consolidated balance sheets.

The IRLCs and forward contracts are not designated as accounting hedges and are recorded at fair value with changes in fair value reflected in noninterest income in 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.

The following table presents amounts that were recorded in the consolidated balance sheets related to cumulative basis adjustments for interest rate swap derivatives designated as fair value accounting hedges as of December 31, 2020 and 2019.

Line item in the consolidated balance sheet in which the hedged item is included	Carrying amount of the hedged assets		Cumulative amount of fair value hedging adjustment included in the carrying amount of the hedged assets	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Loans	$ —	$ 474,957	$ —	$ 21,440
Securities available-for-sale[1]	124,210	151,538	6,064	2,802

[1] These amounts include the amortized cost basis of closed portfolios used to designate hedging relationships in which the hedged item is the last layer expected to be remaining at the end of the hedging relationship. The amounts of the designated hedged items were $88.2 million and $88.2 million, at December 31, 2020 and 2019, respectively.

The following tables present a summary of interest rate swap derivatives designated as fair value accounting hedges of fixed-rate receivables used in the Company's asset/liability management activities at December 31, 2020 and December 31, 2019, identified by the underlying interest rate-sensitive instruments.

December 31, 2020

Instruments Associated With	Notional Value	Weighted Average Remaining Maturity (years)	Fair Value	Weighted-Average Rate	
				Receive	Pay
Securities available-for-sale	88,200	3.1	(6,072)	3 month LIBOR	2 54%
Total swap portfolio at December 31, 2020	$ 88,200	3.1	$ (6,072)	3 month LIBOR	2.54%

(Tabular dollar amounts in thousands except per share data)

December 31, 2019

Instruments Associated With	Notional Value	Weighted Average Remaining Maturity (years)	Fair Value	Weighted-Average Rate	
				Receive	Pay
Loans	$ 427,446	5.5	$ (21,551)	3 month LIBOR	2.86%
Securities available-for-sale	88,200	4.1	(2,806)	3 month LIBOR	2 54%
Total swap portfolio at December 31, 2019	$ 515,646	5 3	$ (24,357)	3 month LIBOR	2.80%

In June 2020, the Company terminated all fair value hedging relationships associated with loans, which resulted in swap termination payments to counterparties totaling $46.1 million. The corresponding loan fair value hedging adjustment as of the date of termination is being amortized over the remaining lives of the designated loans, which have a weighted average term to maturity of 13.1 years as of December 31, 2020.

The following tables present a summary of interest rate swap derivatives designated as cash flow accounting hedges of variable-rate liabilities used in the Company's asset/liability management activities at December 31, 2020 and December 31, 2019.

December 31, 2020

Cash Flow Hedges	Notional Value	Weighted Average Remaining Maturity (years)	Fair Value	Weighted-Average Rate	
				Receive	Pay
Interest rate swaps	$ 110,000	6.1	$ (15,727)	3 month LIBOR	2.88%
Interest rate swaps	100,000	3.0	(7,951)	1 month LIBOR	2.88%

December 31, 2019

Cash Flow Hedges	Notional Value	Weighted Average Remaining Maturity (years)	Fair Value	Weighted-Average Rate	
				Receive	Pay
Interest rate swaps	$ 110,000	7.1	$ (8,390)	3 month LIBOR	2.88%
Interest rate swaps	100,000	4.0	(5,040)	1 month LIBOR	2.88%

These derivative financial instruments were entered into for the purpose of managing the interest rate risk of certain assets and liabilities. The Company pledged $30.6 million and $42.3 million of cash collateral to counterparties as security for its obligations related to these interest rate swap transactions at December 31, 2020 and 2019, respectively. Collateral posted and received is dependent on the market valuation of the underlying hedges.

The following table presents the notional amount and fair value of interest rate swaps, IRLCs and forward contracts utilized by the Company at December 31, 2020 and 2019.

(Tabular dollar amounts in thousands except per share data)

	December 31, 2020		December 31, 2019	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Asset Derivatives				
Derivatives not designated as hedging instruments				
IRLCs	108,095	3,361	56,256	910
Total contracts	$ 108,095	$ 3,361	$ 56,256	$ 910
Liability Derivatives				
Derivatives designated as hedging instruments				
Interest rate swaps associated with loans	$ —	$ —	$ 427,446	$ (21,551)
Interest rate swaps associated with securities available-for-sale	88,200	(6,072)	88,200	(2,806)
Interest rate swaps associated with liabilities	210,000	23,678	210,000	(13,429)
Derivatives not designated as hedging instruments				
orward contracts	107,500	(640)	115,000	(153)
Total contracts	$ 405,700	$ 16,966	$ 840,646	$ (37,939)

The fair values of interest rate swaps were estimated using a discounted cash flow method that incorporates current market interest rates as of the balance sheet date. air values of IRLCs and forward contracts were estimated using changes in mortgage interest rates from the date the Company entered into the IRLC and the balance sheet date.

The following table presents the effects of the Company's cash flow hedge relationships on the consolidated statements of comprehensive income during the twelve months ended December 31, 2020, 2019, and 2018.

	Amount of Gain (loss) Recognized in Other Comprehensive Income in the Twelve Months Ended		
	December 31, 2020	December 31, 2019	December 31, 2018
Interest rate swap agreements	$ (10,248)	$ (9,071)	$ (4,358)

The following table summarizes the periodic changes in the fair value of the derivative financial instruments on the consolidated statements of income for the twelve months ended December 31, 2020, 2019, and 2018.

	Amount of (loss) / gain recognized in the twelve months ended		
	December 31, 2020	December 31, 2019	December 31, 2018
Asset Derivatives			
Derivatives not designated as hedging instruments			
IRLCs	2,451	521	(162)
Forward contracts	(487)	207	(279)

(Tabular dollar amounts in thousands except per share data)

The following table presents the effects of the Company's interest rate swap agreements on the consolidated statements of income during the twelve months ended December 31, 2020, 2019, and 2018.

	Twelve Months Ended		
Line item in the consolidated statements of income	**December 31, 2020**	**December 31, 2019**	**December 31, 2018**
Interest income			
Loans	$ (2,445)	$ (1,533)	$ (100)
Securities - taxable	(722)	(127)	(153)
Securities - non-taxable	(741)	36	23
Total interest income	(3,908)	(1,624)	(230)
Interest expense			
Deposits	2,273	618	151
Other borrowed funds	2,374	473	177
Total interest expense	4,647	1,091	328
Net interest income	$ (8,555)	$ (2,715)	$ (558)

Note 20: Shareholders' Equity

In June 2018, the Company completed an underwritten public offering of 1,730,750 shares of its common stock at a price of $33.25 per share. The Company received net proceeds of approximately $54.3 million after deducting underwriting discounts and commissions and offering expenses.

(Tabular dollar amounts in thousands except per share data)

Note 21: Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive loss, included in stockholders' equity, are presented in the table below.

	Available-For-Sale Securities	Cash Flow Hedges	Total
Balance, January 1, 2018	$ (5,019)	$ —	$ (5,019)
Reclassification of certain tax effects [1]	(1,063)	—	(1,063)
Net unrealized holding losses recorded within other comprehensive income before income tax	(10,466)	(4,358)	(14,824)
Other comprehensive loss before tax	(10,466)	(4,358)	(14,824)
Income tax benefit	(3,189)	(1,176)	(4,365)
Other comprehensive loss - net of tax	(7,277)	(3,182)	(10,459)
Balance, December 31, 2018	$ (13,359)	$ (3,182)	$ (16,541)
Net unrealized holding gains (losses) recorded within other comprehensive income before income tax	12,072	(9,071)	3,001
Reclassification of net loss realized and included in earnings	458	—	458
Other comprehensive income (loss) before tax	12,530	(9,071)	3 459
Income tax provision (benefit)	3,559	(2,450)	1,109
Other comprehensive income (loss) - net of tax	8,971	(6,621)	2,350
Balance, December 31, 2019	$ (4,388)	$ (9,803)	$ (14,191)
Net unrealized holding gains (losses) recorded within other comprehensive income before income tax	6,551	(10,248)	(3,697)
Reclassification of adjustment for gains realized	(139)	—	(139)
Other comprehensive income (loss) before income tax	6,412	(10,248)	(3,836)
Income tax provision (benefit)	1,556	(2,387)	(831)
Other comprehensive income (loss) - net of tax	4,856	(7,861)	(3,005)
Balance, December 31, 2020	$ 468	$ (17,664)	$ (17,196)

[1] Represents the reclassification of stranded income tax effects to Retained Earnings upon adoption of ASU 2018-02 and ASU 2016 01.

(Tabular dollar amounts in thousands except per share data)

Note 22: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations, and cash flows of the Company on a non-consolidated basis:

Condensed Balance Sheets

	Year Ended December 31,	
		9
Assets		
Cash and cash equivalents	$ 40,532	$ 38,303
Investment in common stock of subsidiaries	366,463	332,352
Premises and equipment, net	5,910	6,515
Accrued income and other assets	2,658	2,156
Total assets	$ 415,563	$ 379,326
Liabilities and shareholders' equity		
Subordinated debt, net of unamortized discounts and debt issuance costs of $2,397 in 2020 and $2,472 in 2019	$ 79,603	$ 69,528
Note payable to the Bank	3,000	3,000
Accrued expenses and other liabilities	2,016	1,885
Total liabilities	84,619	74,413
Shareholders' equity	330,944	304,913
Total liabilities and shareholders' equity	$ 415,563	$ 379,326

Condensed Statements of Income

	Year Ended December 31,		
		9	18
Expenses			
Interest on borrowings	$ 4,924	$ 3,804	$ 2,616
Salaries and employee benefits	904	804	564
Consulting and professional fees	1,678	1,610	958
Premises and equipment	295	285	285
Other	361	408	315
Total expenses	8,162	6,911	4,738
Loss before income tax and equity in undistributed net income of subsidiaries	(8,162)	(6,911)	(4,738)
Income tax benefit	(2,089)	(1,783)	(1,172)
Loss before equity in undistributed net income of subsidiaries	(6,073)	(5,128)	(3,566)
Equity in undistributed net income of subsidiaries	35,526	30,367	25,466
Net income	$ 29,453	$ 25,239	$ 21,900

(Tabular dollar amounts in thousands except per share data)

Condensed Statements of Comprehensive Income

	Year Ended December 31,		
		9	18
Net income	$ 29,453	$ 25,239	$ 21,900
Other comprehensive (loss) income			
Net unrealized holding gains (losses) on securities available-for-sale recorded within other comprehensive income before income tax	6,551	12,072	(10,466)
Reclassification adjustment for (gains) losses realized	(139)	458	—
Net unrealized holding losses on cash flow hedging derivatives recorded within other comprehensive income before income tax	(10,248)	(9,071)	(4,358)
Other comprehensive (loss) income before tax	(3,836)	3,459	(14,824)
Income tax (benefit) provision	(831)	1,109	(4,365)
Other comprehensive (loss) income - net of tax	(3,005)	2,350	(10,459)
Comprehensive income	$ 26,448	$ 27,589	$ 11,441

(Tabular dollar amounts in thousands except per share data)

Condensed Statements of Cash Flows

	Year Ended December 31,		
		9	18
Operating activities			
Net income	$ 29,453	$ 25,239	$ 21,900
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiaries	(35,526)	(30,367)	(25,466)
Depreciation and amortization	711	647	568
Share-based compensation expense	518	288	243
Net change in other assets	(502)	(508)	1,769
Net change in other liabilities	311	(87)	79
Net cash used in operating activities	(5,035)	(4,788)	(907)
Investing activities			
Capital contribution to the Bank	—	(25,000)	(35,000)
Purchase of premises and equipment	—	(13)	—
Net cash used in investing activities	—	(25,013)	(35,000)
Financing activities			
Cash dividends paid	(2,349)	(2,418)	(2,230)
Net proceeds from issuance of subordinated debt	9,765	35 418	—
Repayment of subordinated debt	—	—	(3,000)
Principal payment on loan from the Bank	—	(300)	(300)
Net proceeds from common stock issuance	—	—	54,334
Repurchase of common stock	—	(9,784)	(216)
Other, net	(152)	(93)	(210)
Net cash provided by financing activities	7,264	22,823	48,378
Net increase (decrease) in cash and cash equivalents	2,229	(6,978)	12,471
Cash and cash equivalents at beginning of year	38,303	45,281	32,810
Cash and cash equivalents at end of year	$ 40,532	$ 38,303	$ 45,281

(Tabular dollar amounts in thousands except per share data)

Note 23: Quarterly Financial Data (unaudited)

	Three Months Ended			
	December 31,	September 30,	June 30,	March 31,
Income Statement Data:				
Interest income	$ 33,643	$ 32,750	$ 34,222	$ 36,244
Interest expense	14,778	16,518	19,796	21,226
Net interest income	18,865	16,232	14,426	15,018
Provision for loan losses	2,864	2,509	2,491	1,461
Net interest income after provision for loan losses	16,001	13,723	11,935	13,557
Noninterest income	12,657	12,495	4,973	6,211
Noninterest expense	14,513	16,412	13,244	13,486
Income before income taxes	14,145	9,806	3,664	6,282
Income tax provision	3,055	1,395	(268)	263
Net income	$ 11,090	$ 8,411	$ 3,932	$ 6,019
Per Share Data:				
Net income				
Basic	$ 1.12	$ 0.86	$ 0.40	$ 0.62
Diluted	$ 1.12	$ 0.86	$ 0.40	$ 0.62
Weighted average common shares outstanding				
Basic	9,883,609	9,773,175	9,768,227	9,721,485
Diluted	9,914,022	9,773,224	9,768,227	9,750,528

	Three Months Ended			
	December 31, 9	September 30, 9	June 30, 19	March 31, 9
Income Statement Data:				
Interest income	$ 37,877	$ 37,694	$ 36,844	$ 34,999
Interest expense	22,503	22,450	20,739	18,755
Net interest income	15,374	15,244	16,105	16,244
Provision for loan losses	468	2,824	1,389	1,285
Net interest income after provision for loan losses	14,906	12,420	14,716	14,959
Noninterest income	5,405	5,558	3,454	2,372
Noninterest expense	12,613	11,203	11,709	11,109
Income before income taxes	7,698	6,775	6,461	6,222
Income tax (benefit) provision	602	449	340	526
Net income	$ 7,096	$ 6,326	$ 6,121	$ 5,696
Per Share Data:				
Net income				
Basic	$ 0.72	$ 0.63	$ 0.60	$ 0.56
Diluted	$ 0.72	$ 0.63	$ 0.60	$ 0.56
Weighted average common shares outstanding				
Basic	9,825,784	9,979,603	10,148,285	10,217,637
Diluted	9,843,829	9,980,612	10,148,285	10,230,531

Note 24: Recent Accounting Pronouncements

ASU 2016-13 *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (June 2016)

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

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

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

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

- In May 2019, the FASB issued ASU 2019-05 *Financial Instruments - Credit Losses (Topic 326) - Targeted Transition Relief*. This ASU allows an option for preparers to irrevocably elect the fair value option, on an instrument-by-instrument basis, for eligible financial assets measured at amortized cost basis upon adoption of the credit losses standard. This increases the comparability of financial statement information provided by institutions that otherwise would have reported similar financial instruments using different measurement methodologies, potentially decreasing costs for financial statement preparers while providing more useful information to investors and other users.

For public business entities that are SEC filers, the amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. All entities may early adopt the amendments in this update as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. In November 2019, the FASB issued ASU 2019-10 *Financial Instruments - Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842) - Effective Dates.* This ASU delayed the effective date for smaller reporting companies to fiscal years beginning after December 15, 2022. An entity will apply the amendments in this update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). A prospective transition approach is required for debt securities for which an OTTI had been recognized before the effective date. The effect of a prospective transition approach is to maintain the same amortized cost basis before and after the effective date of this update.

The Company does not expect to early adopt and is currently evaluating the impact of the amendments on the Company's consolidated financial statements. The Company currently cannot determine or reasonably quantify the impact of the adoption of the amendments due to the complexity and extensive changes. The Company intends to develop processes and procedures prior to the effective date to ensure it is fully compliant with the amendments at the adoption date. The Company has formed an implementation committee and has engaged a third-party consultant to assist in developing current expected credit losses ("CECL") models using appropriate methodologies.

ASU 2017-04 - *Intangibles - Goodwill and other (Topic 50) - Simplifying the Test for Goodwill Impairment"* (January 2017)

The amendments in this update simplify the goodwill impairment test by eliminating Step 2 of the goodwill impairment process, which requires an entity to determine the implied fair value of its goodwill by assigning fair value to all its assets and liabilities. Under the new guidance, an entity will record an impairment charge if a reporting unit's carrying amount exceeds its fair value. Entities still have the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment is necessary. The amendments in this ASU are effective for smaller reporting companies for annual and interim impairment tests performed in periods beginning after December 15, 2022. Early adoption is permitted. The Company adopted this guidance effective July 1, 2020 and it did not have a material impact on the consolidated financial statements.

ASU 2018-13 *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* (August 2018)

The amendments in this update modify the disclosure requirements on fair value measurements in ASC Topic 820. This ASU eliminates the requirements to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels and the valuation processes for Level 3 fair value measurements. In addition, this ASU requires entities that calculate net asset value to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly. This ASU also adds new requirements, which include the disclosure of the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The amendments in this ASU were effective for public companies for fiscal years, and interim fiscal periods within those fiscal years, beginning after December 15, 2019. The adoption of this guidance did not have a material impact on the consolidated financial statements.

ASU 2019-04 *Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments* (April 2019)

The amendments in this ASU clarify or correct the guidance in ASC Topic 326, Topic 815 and Topic 825. With respect to Topic 326, ASU 2019-04 addresses a number of issues as it relates to the CECL standard including consideration of accrued interest, recoveries, variable-rate financial instruments, prepayments, extension and renewal options, among other things, in the measurement of expected credit losses. The amendments to Topic 326 have the same effective dates as ASU 2016-13 and the Company is currently evaluating the potential impact of these amendments on the consolidated financial statements. With respect to Topic 815, ASU 2019-04 clarifies issues related to partial-term hedges, hedged debt securities, and transitioning from a quantitative method of assessing hedge effectiveness to a more simplified method. The amendments to Topic 815 are effective for interim and annual reporting periods beginning after December 15, 2019 and are not expected to have a material impact on the consolidated financial statements. With respect to Topic 825, ASU 2019-04 addresses the scope of the guidance, the requirement for remeasurement under ASC Topic 820 when using the measurement alternative, certain disclosure requirements, and which equity securities must be remeasured at historical exchanges rates. The amendments to Topic 825 were effective for interim and annual reporting periods beginning after December 15, 2019 and the adoption of this guidance did not have a material impact on the consolidated financial statements.

Coronavirus Aid, Relief and Economic Security Act ("CARES Act")

In March 2020 in connection with the implementation of the CARES Act and related provisions, the Company adopted the temporary relief issued under the CARES Act, thereby suspending the guidance in ASC 310-40 on accounting for TDRs to loan modifications related to COVID-19. Section 4013 of the CARES Act specifies that loan modifications due to the impact of COVID-19 that would otherwise be classified as TDRs under GAAP will not be so classified. Modifications within the scope of this relief are in effect from the period beginning March 1, 2020 until the earlier of December 31, 2020 or 60 days after the date on which the national emergency related to the COVID-19 pandemic formally terminates. See the "Non-TDR Loan Modifications due to COVID-19" section of Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations for more information.

ASU 2020-04 *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* (March 2020)

In March 2020, FASB issued ASU 2020-04 to ease the potential burden in accounting for the transition away from the LIBOR-on financial reporting. The ASU provides optional expedients and exceptions for applying GAAP to contract modification and hedge accounting relationships. The guidance is effective March 12, 2020 through December 31, 2022. The Company believes the adoption of this guidance will not have a material impact on the consolidated financial statements.

[This page intentionally left blank]

[This page intentionally left blank]

EXECUTIVE / SHAREHOLDER INFORMATION

Board of Directors of First Internet Bancorp

David B. Becker
Chairman, President and Chief Executive Officer

David R. Lovejoy
Vice Chairman
Managing Director, Greycourt & Co.

Ana Dutra
Chief Executive Officer, Mandala Global Advisors, Inc.

John K. Keach, Jr.
Private Investor,
Former Chairman, President and Chief Executive Officer, Indiana Community Bancorp

Michael L. Smith
Retired Executive Vice President and Chief Financial Officer, Anthem, Inc.

Ralph R. Whitney, Jr.
Chairman Emeritus, Hammond, Kennedy, Whitney & Co., Inc.
Partner, Monument Microcap Partners

Jerry Williams
Private Investor,
Formerly of Counsel, Taft Stettinius & Hollister, LLP

Jean L. Wojtowicz
President,
Cambridge Capital Management Corp.

Senior Management of First Internet Bank

David B. Becker*
President and Chief Executive Officer

Nicole S. Lorch*
Executive Vice President and Chief Operating Officer

Kenneth J. Lovik*
Executive Vice President and Chief Financial Officer

C. Charles Perfetti*
Executive Vice President and Corporate Secretary

Timothy C. Dusing
Senior Vice President, Public Finance

Stephen C. Farrell
Senior Vice President, Chief Credit Officer and Credit Administrator

Kevin B. Quinn
Senior Vice President, Retail Lending

Anne M. Sharkey
Senior Vice President, Operations

Neil Barna
Regional Vice President, Commercial Banking (AZ)

Thomas Smith
Regional Vice President, Commercial Banking (IN)

Shareholder Information

Common Stock
First Internet Bancorp is listed on the Nasdaq Global Select Market under the symbol INBK

Corporate Headquarters
First Internet Bancorp
11201 USA Parkway
Fishers, IN 46037
(317) 532-7900
www.firstinternetbancorp.com

Investor Relations Contact
Paula Deemer
(317) 428-4628
investors@firstib.com

Transfer Agent
Computershare
PO Box 505000
Louisville, KY 40233-5000
(800) 368-5948
www.computershare.com

Independent Registered Public Accounting Firm
BKD, LLP
201 North Illinois Street, Suite 700
Indianapolis, IN 46204
(317) 383-4000

Legal Counsel
Faegre Drinker Biddle & Reath LLP
600 East 96th Street, Suite 600
Indianapolis, IN 46240
(317) 569-9600

**Denotes Executive Officer of First Internet Bancorp*