# Section 1: 10-Q (10-Q)

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

## FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period ended June 30, 2019

OR

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

Commission File Number **001-35750**

**First Internet Bancorp**

(Exact Name of Registrant as Specified in Its Charter)

| | |
|---|---|
| **Indiana** | **20-3489991** |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |
| **11201 USA Parkway**<br>**Fishers, IN** | **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 each 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** |

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for 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 Exchange Act). Yes ☐ No ☑

As of August 2, 2019, the registrant had 9,959,923 shares of common stock issued and outstanding.

**Cautionary Note Regarding Forward-Looking Statements**

This Quarterly Report on Form 10-Q 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 (“we,” “our,” “us” or the “Company”) regarding its business strategies, intended results and future performance. Forward-looking statements are generally preceded by terms such as “anticipate,” “believe,” “can,” “continue,” “estimate,” “expect,” “intend,” “likely,” “may,” “plan,” “should,” “will” and similar expressions. Such statements are subject to certain risks and uncertainties including: general economic conditions, whether national or regional, and conditions in the lending markets in which we participate that may have an adverse effect on the demand for our loans and other products; our credit quality and related levels of nonperforming assets and loan losses, and the value and salability of the real estate that we own or that is the collateral for our loans; failures 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 grow our commercial real estate, commercial and industrial, public finance and healthcare finance loan portfolios which may carry greater risks of non-payment or other unfavorable consequences; our dependence on capital distributions from First Internet Bank of Indiana (the “Bank”); results of examinations of us by our regulators, including the possibility that our regulators may, among other things, require us to increase our allowance for loan losses or to write-down assets; changing bank regulatory conditions, policies or programs, whether arising as new legislation or regulatory initiatives, that could lead to restrictions on activities of banks generally, or the Bank in particular; more restrictive regulatory capital requirements; increased costs, including deposit insurance premiums; regulation or prohibition of certain income producing activities or changes in the secondary market for loans and other products; changes in market rates and prices that may adversely impact the value of securities, loans, deposits and other financial instruments and the interest rate sensitivity of our balance sheet; our liquidity requirements 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 (the “PCAOB”) and other regulatory agencies; and the effect of fiscal and governmental policies of the United States federal government. Additional factors that may affect our results include those discussed in our most recent Annual Report on Form 10-K 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.

## PART I

## ITEM 1. FINANCIAL STATEMENTS

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

| | June 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | (Unaudited) | | | |
| **Assets** | | | | |
| Cash and due from banks | $ | 5,638 | $ | 7,080 |
| Interest-bearing deposits | | 342,660 | | 181,632 |
| Total cash and cash equivalents | | 348,298 | | 188,712 |
| Securities available-for-sale, at fair value (amortized cost of $526,679 and $499,893 in 2019 and 2018, respectively) | | 522,334 | | 481,345 |
| Securities held-to-maturity, at amortized cost (fair value of $36,288 and $22,418 in 2019 and 2018, respectively) | | 35,826 | | 22,750 |
| Loans held-for-sale (includes $30,642 and $18,328 at fair value in 2019 and 2018, respectively) | | 30,642 | | 18,328 |
| Loans | | 2,861,156 | | 2,716,228 |
| Allowance for loan losses | | (19,976) | | (17,896) |
| Net loans | | 2,841,180 | | 2,698,332 |
| Accrued interest receivable | | 18,887 | | 16,822 |
| Federal Home Loan Bank of Indianapolis stock | | 25,650 | | 23,625 |
| Cash surrender value of bank-owned life insurance | | 36,527 | | 36,059 |
| Premises and equipment, net | | 14,405 | | 10,697 |
| Goodwill | | 4,687 | | 4,687 |
| Other real estate owned | | 2,619 | | 2,619 |
| Accrued income and other assets | | 77,774 | | 37,716 |
| Total assets | $ | 3,958,829 | $ | 3,541,692 |
| **Liabilities and Shareholders' Equity** | | | | |
| **Liabilities** | | | | |
| Noninterest-bearing deposits | $ | 44,040 | $ | 43,301 |
| Interest-bearing deposits | | 2,962,223 | | 2,628,050 |
| Total deposits | | 3,006,263 | | 2,671,351 |
| Advances from Federal Home Loan Bank | | 514,906 | | 525,153 |
| Subordinated debt, net of unamortized debt issuance costs of $2,625 and $1,125 in 2019 and 2018, respectively | | 69,375 | | 33,875 |
| Accrued interest payable | | 2,930 | | 1,108 |
| Accrued expenses and other liabilities | | 69,235 | | 21,470 |
| Total liabilities | | 3,662,709 | | 3,252,957 |
| **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; 10,016,458 and 10,170,778 shares issued and outstanding in 2019 and 2018, respectively | | 224,244 | | 227,587 |
| Nonvoting common stock, no par value; 86,221 shares authorized; issued and outstanding - none | | — | | — |
| Retained earnings | | 87,454 | | 77,689 |
| Accumulated other comprehensive loss | | (15,578) | | (16,541) |
| Total shareholders' equity | | 296,120 | | 288,735 |
| Total liabilities and shareholders' equity | $ | 3,958,829 | $ | 3,541,692 |

*See Notes to Condensed Consolidated Financial Statements*

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2019 | June 30, 2018 | June 30, 2019 | June 30, 2018 |
| **Interest Income** | | | | |
| Loans | $ 30,842 | $ 23,699 | $ 60,060 | $ 45,814 |
| Securities – taxable | 3,540 | 2,556 | 6,864 | 5,044 |
| Securities – non-taxable | 668 | 700 | 1,352 | 1,411 |
| Other earning assets | 1,794 | 461 | 3,567 | 1,126 |
| Total interest income | 36,844 | 27,416 | 71,843 | 53,395 |
| **Interest Expense** | | | | |
| Deposits | 17,147 | 9,226 | 32,533 | 17,496 |
| Other borrowed funds | 3,592 | 2,729 | 6,961 | 5,023 |
| Total interest expense | 20,739 | 11,955 | 39,494 | 22,519 |
| **Net Interest Income** | 16,105 | 15,461 | 32,349 | 30,876 |
| **Provision for Loan Losses** | 1,389 | 667 | 2,674 | 1,517 |
| **Net Interest Income After Provision for Loan Losses** | 14,716 | 14,794 | 29,675 | 29,359 |
| **Noninterest Income** | | | | |
| Service charges and fees | 225 | 231 | 461 | 461 |
| Mortgage banking activities | 2,664 | 1,597 | 4,281 | 3,175 |
| (Loss) gain on sale of loans | (66) | — | (170) | 414 |
| Loss on sale of securities | (458) | — | (458) | — |
| Other | 1,089 | 349 | 1,712 | 669 |
| Total noninterest income | 3,454 | 2,177 | 5,826 | 4,719 |
| **Noninterest Expense** | | | | |
| Salaries and employee benefits | 6,642 | 5,827 | 12,963 | 11,732 |
| Marketing, advertising and promotion | 466 | 608 | 935 | 1,324 |
| Consulting and professional services | 835 | 633 | 1,649 | 1,484 |
| Data processing | 328 | 282 | 645 | 545 |
| Loan expenses | 292 | 260 | 606 | 497 |
| Premises and equipment | 1,497 | 1,231 | 2,997 | 2,445 |
| Deposit insurance premium | 747 | 480 | 1,302 | 945 |
| Other | 902 | 861 | 1,721 | 1,427 |
| Total noninterest expense | 11,709 | 10,182 | 22,818 | 20,399 |
| **Income Before Income Taxes** | 6,461 | 6,789 | 12,683 | 13,679 |
| **Income Tax Provision** | 340 | 781 | 866 | 1,643 |
| **Net Income** | $ 6,121 | $ 6,008 | $ 11,817 | $ 12,036 |
| **Income Per Share of Common Stock** | | | | |
| Basic | $ 0.60 | $ 0.67 | $ 1.16 | $ 1.38 |
| Diluted | $ 0.60 | $ 0.67 | $ 1.16 | $ 1.38 |
| **Weighted-Average Number of Common Shares Outstanding** | | | | |
| Basic | 10,148,285 | 8,909,913 | 10,182,770 | 8,705,689 |
| Diluted | 10,148,285 | 8,919,460 | 10,186,833 | 8,731,331 |
| **Dividends Declared Per Share** | $ 0.06 | $ 0.06 | $ 0.12 | $ 0.12 |

*See Notes to Condensed Consolidated Financial Statements*

**First Internet Bancorp**
**Condensed Consolidated Statements of Comprehensive Income – Unaudited**
(Amounts in thousands)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Net income | $ 6,121 | $ 6,008 | $ 11,817 | $ 12,036 |
| Other comprehensive income | | | | |
| Net unrealized holding gains (losses) on securities available-for-sale recorded within other comprehensive income before income tax | 3,667 | (3,209) | 10,577 | (10,874) |
| Reclassification adjustment for losses realized | 458 | — | 458 | — |
| Net unrealized holding losses on cash flow hedging derivatives recorded within other comprehensive (loss) income before tax | (5,892) | (958) | (9,464) | (958) |
| Other comprehensive (loss) income before income tax | (1,767) | (4,167) | 1,571 | (11,832) |
| Income tax (benefit) provision | (357) | (1,363) | 608 | (3,836) |
| Other comprehensive (loss) income | (1,410) | (2,804) | 963 | (7,996) |
| Comprehensive income | $ 4,711 | $ 3,204 | $ 12,780 | $ 4,040 |

*See Notes to Condensed Consolidated Financial Statements*

**First Internet Bancorp**
**Condensed Consolidated Statements of Changes in Shareholders' Equity - Unaudited**
**Six Months Ended June 30, 2019 and 2018**
(Amounts in thousands except per share data)

| | Voting and Nonvoting Common Stock | Retained Earnings | Accumulated Other Comprehensive Loss | Total Shareholders' Equity |
|---|---|---|---|---|
| **Balance, January 1, 2019** | $ 227,587 | $ 77,689 | $ (16,541) | $ 288,735 |
| Impact of adoption of new accounting standards (1) | — | (821) | — | (821) |
| Net income | — | 11,817 | — | 11,817 |
| Other comprehensive income | — | — | 963 | 963 |
| Dividends declared ($0.12 per share) | — | (1,231) | — | (1,231) |
| Recognition of the fair value of share-based compensation | 862 | — | — | 862 |
| Repurchase of common stock | (4,133) | — | — | (4,133) |
| Deferred stock rights and restricted stock units issued in lieu of cash dividends payable on outstanding deferred stock rights and restricted stock units | 22 | — | — | 22 |
| Common stock redeemed for the net settlement of share-based awards | (94) | — | — | (94) |
| **Balance, June 30, 2019** | $ 224,244 | $ 87,454 | $ (15,578) | $ 296,120 |
| | | | | |
| **Balance, January 1, 2018** | $ 172,043 | $ 57,103 | $ (5,019) | $ 224,127 |
| Impact of adoption of new accounting standards (2) | — | 1,063 | (1,063) | — |
| Net income | — | 12,036 | — | 12,036 |
| Other comprehensive loss | — | — | (7,996) | (7,996) |
| Dividends declared ($0.12 per share) | — | (1,136) | — | (1,136) |
| Net cash proceeds from common stock issuance | 54,334 | — | — | 54,334 |
| Recognition of the fair value of share-based compensation | 911 | — | — | 911 |
| Deferred stock rights and restricted stock units issued in lieu of cash dividends payable on outstanding deferred stock rights and restricted stock units | 21 | — | — | 21 |
| Common stock redeemed for the net settlement of share-based awards | (210) | — | — | (210) |
| **Balance, June 30, 2018** | $ 227,099 | $ 69,066 | $ (14,078) | $ 282,087 |

(1) Represents the impact of adopting Accounting Standards Update ("ASU") 2017-08.
(2) Represents the impact of adopting 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. See Note 13 to the condensed consolidated financial statements for more information.

*See Notes to Condensed Consolidated Financial Statements*

**First Internet Bancorp**
**Condensed Consolidated Statements of Changes in Shareholders' Equity - Unaudited**
**Three Months Ended June 30, 2019 and 2018**
(Amounts in thousands except per share data)

| | Voting and Nonvoting Common Stock | Retained Earnings | Accumulated Other Comprehensive Loss | Total Shareholders' Equity |
|---|---|---|---|---|
| **Balance, April 1, 2019** | $ 226,235 | $ 81,946 | $ (14,168) | $ 294,013 |
| Net income | — | 6,121 | — | 6,121 |
| Other comprehensive loss | — | — | (1,410) | (1,410) |
| Dividends declared ($0.06 per share) | — | (613) | — | (613) |
| Recognition of the fair value of share-based compensation | 383 | — | — | 383 |
| Repurchase of common stock | (2,387) | — | — | (2,387) |
| Deferred stock rights and restricted stock units issued in lieu of cash dividends payable on outstanding deferred stock rights and restricted stock units | 13 | — | — | 13 |
| **Balance, June 30, 2019** | $ 224,244 | $ 87,454 | $ (15,578) | $ 296,120 |
| | | | | |
| **Balance, April 1, 2018** | $ 172,420 | $ 63,677 | $ (11,274) | $ 224,823 |
| Net income | — | 6,008 | — | 6,008 |
| Other comprehensive loss | — | — | (2,804) | (2,804) |
| Dividends declared ($0.06 per share) | — | (619) | — | (619) |
| Net cash proceeds from common stock issuance | 54,334 | | | 54,334 |
| Recognition of the fair value of share-based compensation | 333 | — | — | 333 |
| Deferred stock rights and restricted stock units issued in lieu of cash dividends payable on outstanding deferred stock rights and restricted stock units | 12 | — | — | 12 |
| **Balance, June 30, 2018** | $ 227,099 | $ 69,066 | $ (14,078) | $ 282,087 |

*See Notes to Condensed Consolidated Financial Statements*

**First Internet Bancorp**
**Condensed Consolidated Statements of Cash Flows – Unaudited**
(Amounts in thousands)

| | Six Months Ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| **Operating Activities** | | |
| Net income | $ 11,817 | $ 12,036 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 3,747 | 2,948 |
| Increase in cash surrender value of bank-owned life insurance | (468) | (474) |
| Provision for loan losses | 2,674 | 1,517 |
| Share-based compensation expense | 862 | 911 |
| Loss on sale of available-for-sale securities | 458 | — |
| Loans originated for sale | (220,266) | (178,382) |
| Proceeds from sale of loans | 211,432 | 184,779 |
| Gain on loans sold | (3,128) | (3,579) |
| Gain on sale of other real estate owned | — | (105) |
| (Increase) decrease in fair value of loans held-for-sale | (352) | 82 |
| Gain on derivatives | (553) | (132) |
| Amortization of operating lease right-of-use assets | 353 | — |
| Net change in accrued income and other assets | (44,383) | (2,239) |
| Net change in accrued expenses and other liabilities | 4,476 | (1,477) |
| Net cash (used in) provided by operating activities | (33,331) | 15,885 |
| **Investing Activities** | | |
| Net loan activity, excluding purchases | (153,259) | (202,187) |
| Proceeds from sale of other real estate owned | — | 332 |
| Maturities and calls of securities available-for-sale | 30,950 | 31,601 |
| Proceeds from sale of securities available-for-sale | 30,137 | — |
| Purchase of securities available-for-sale | (76,834) | (31,185) |
| Purchase of securities held-to-maturity | (13,116) | — |
| Purchase of Federal Home Loan Bank of Indianapolis stock | (2,025) | (2,475) |
| Purchase of premises and equipment | (2,852) | (903) |
| Loans purchased | (159,068) | (81,865) |
| Net proceeds from sale of portfolio loans | 184,095 | 25,717 |
| Net cash used in investing activities | (161,972) | (260,965) |
| **Financing Activities** | | |
| Net increase in deposits | 334,912 | 309,343 |
| Cash dividends paid | (1,214) | (1,008) |
| Repayment of subordinated debt | — | (3,000) |
| Net proceeds from issuance of subordinated debt | 35,418 | — |
| Repurchase of common stock | (4,133) | — |
| Proceeds from advances from Federal Home Loan Bank | 375,000 | 140,000 |
| Repayment of advances from Federal Home Loan Bank | (385,000) | (160,000) |
| Net proceeds from common stock issuance | — | 54,334 |
| Other, net | (94) | (210) |
| Net cash provided by financing activities | 354,889 | 339,459 |
| **Net Increase in Cash and Cash Equivalents** | 159,586 | 94,379 |
| **Cash and Cash Equivalents, Beginning of Period** | 188,712 | 47,981 |
| **Cash and Cash Equivalents, End of Period** | $ 348,298 | $ 142,360 |
| **Supplemental Disclosures** | | |
| Initial recognition of right-of-use asset | $ 2,096 | $ — |
| Initial recognition of operating lease liabilities | 2,096 | — |
| Cash paid during the period for interest | 37,672 | 22,395 |
| Cash paid during the period for taxes | 1,793 | 360 |
| Loans transferred to other real estate owned | — | 227 |
| Loans transferred to held-for-sale from portfolio | 184,021 | — |
| Cash dividends declared, paid in subsequent period | 601 | 611 |
| Securities purchased during the period, settled in subsequent period | 14,247 | 3,923 |
| Transfer of other equity investments from securities available-for-sale to other assets in accordance with adoption of ASU 2016-01 | — | 2,932 |

*See Notes to Condensed Consolidated Financial Statements*

**Note 1: Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial information and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information or footnotes necessary for a complete presentation of financial condition, results of operations, changes in shareholders' equity, or cash flows in accordance with GAAP. In our opinion, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation have been included. The results of operations for the three and six months ended June 30, 2019 are not necessarily indicative of the results expected for the year ending December 31, 2019 or any other period. The June 30, 2019 condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the First Internet Bancorp Annual Report on Form 10-K for the year ended December 31, 2018.

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

The condensed consolidated financial statements include the accounts of First Internet Bancorp (the "Company"), its wholly owned subsidiary, First Internet Bank of Indiana (the "Bank"), and the Bank's three wholly-owned subsidiaries, First Internet Public Finance Corp., JKH Realty Services, LLC and SPF15, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

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

**Note 2: Earnings Per Share**

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

The following is a reconciliation of the weighted-average common shares for the basic and diluted earnings per share computations for the three and six months ended June 30, 2019 and 2018.

| *(dollars in thousands, except per share data)* | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Basic earnings per share | | | | |
| Net income | $ 6,121 | $ 6,008 | $ 11,817 | $ 12,036 |
| Weighted-average common shares | 10,148,285 | 8,909,913 | 10,182,770 | 8,705,689 |
| Basic earnings per common share | $ 0.60 | $ 0.67 | $ 1.16 | $ 1.38 |
| Diluted earnings per share | | | | |
| Net income | $ 6,121 | $ 6,008 | $ 11,817 | $ 12,036 |
| Weighted-average common shares | 10,148,285 | 8,909,913 | 10,182,770 | 8,705,689 |
| Dilutive effect of equity compensation | — | 9,547 | 4,063 | 25,642 |
| Weighted-average common and incremental shares | 10,148,285 | 8,919,460 | 10,186,833 | 8,731,331 |
| Diluted earnings per common share [(1)] | $ 0.60 | $ 0.67 | $ 1.16 | $ 1.38 |

[(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 30,250 and 23,305 for the three and six months ended June 30, 2019, respectively, and 2,113 and 7,581 for the three and six months ended June 30, 2018, respectively.

**Note 3: Securities**

The following tables summarize securities available-for-sale and securities held-to-maturity as of June 30, 2019 and December 31, 2018.

| | June 30, 2019 | | | |
|---|---|---|---|---|
| | Amortized | Gross Unrealized | | Fair |
| | Cost | Gains | Losses | Value |
| Securities available-for-sale | | | | |
| U.S. Government-sponsored agencies | $ 89,088 | $ 196 | $ (1,547) | $ 87,737 |
| Municipal securities | 96,202 | 982 | (196) | 96,988 |
| Mortgage-backed securities | 297,745 | 1,486 | (3,243) | 295,988 |
| Asset-backed securities | 5,000 | — | (72) | 4,928 |
| Corporate securities | 38,644 | 54 | (2,005) | 36,693 |
| Total available-for-sale | $ 526,679 | $ 2,718 | $ (7,063) | $ 522,334 |

| | June 30, 2019 | | | |
|---|---|---|---|---|
| | Amortized | Gross Unrealized | | Fair |
| | Cost | Gains | Losses | Value |
| Securities held-to-maturity | | | | |
| Municipal securities | $ 10,147 | $ 149 | $ — | $ 10,296 |
| Corporate securities | 25,679 | 353 | (40) | 25,992 |
| Total held-to-maturity | $ 35,826 | $ 502 | $ (40) | $ 36,288 |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Amortized | Gross Unrealized | | Fair |
| | Cost | Gains | Losses | Value |
| Securities available-for-sale | | | | |
| U.S. Government-sponsored agencies | $ 109,631 | $ 20 | $ (2,066) | $ 107,585 |
| Municipal securities | 97,090 | 90 | (4,674) | 92,506 |
| Mortgage-backed securities | 251,492 | 162 | (8,742) | 242,912 |
| Asset-backed securities | 5,002 | — | (143) | 4,859 |
| Corporate securities | 36,678 | — | (3,195) | 33,483 |
| Total available-for-sale | $ 499,893 | $ 272 | $ (18,820) | $ 481,345 |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Amortized | Gross Unrealized | | Fair |
| | Cost | Gains | Losses | Value |
| Securities held-to-maturity | | | | |
| Municipal securities | $ 10,157 | $ — | $ (356) | $ 9,801 |
| Corporate securities | 12,593 | 80 | (56) | 12,617 |
| Total held-to-maturity | $ 22,750 | $ 80 | $ (412) | $ 22,418 |

The carrying value of securities at June 30, 2019 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 |
| One to five years | $ 4,160 | $ 4,212 |
| Five to ten years | 68,125 | 67,063 |
| After ten years | 151,649 | 150,143 |
| | 223,934 | 221,418 |
| Mortgage-backed securities | 297,745 | 295,988 |
| Asset-backed securities | 5,000 | 4,928 |
| Total | $ 526,679 | $ 522,334 |

| | Held-to-Maturity | |
|---|---|---|
| | Amortized Cost | Fair Value |
| One to five years | $ 497 | $ 499 |
| Five to ten years | 29,423 | 29,763 |
| After ten years | 5,906 | 6,026 |
| Total | $ 35,826 | $ 36,288 |

There were $0.5 million of gross losses resulting from sales of available-for-sale securities during the three and six months ended June 30, 2019 and no gross gains or losses resulting from sales of available-for-sale securities during the three and six months ended June 30, 2018.

Certain investments in debt securities are reported in the condensed consolidated financial statements at an amount less than their historical cost. The total fair value of these investments at June 30, 2019 and December 31, 2018 was $309.5 million and $469.8 million, which was approximately 55% and 93%, respectively, of the Company's available-for-sale and held-to-maturity securities portfolios. These declines resulted primarily from fluctuations in market interest rates after purchase. Management believes the declines in fair value for these securities are temporary. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced, with the resulting loss recognized in net income in the period the other-than-temporary impairment ("OTTI") is identified.

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

The unrealized losses on the Company’s investments in securities issued by U.S. Government-sponsored agencies, municipal organizations and corporate entities were caused primarily by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not likely that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be upon maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2019.

***Mortgage-Backed Securities***

The unrealized losses on the Company’s investments in mortgage-backed securities were caused by interest rate changes. The Company expects to recover the amortized cost bases over the term of the securities. Because the Company does not intend to sell the investments and it is not likely that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be upon maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2019.

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 June 30, 2019 and December 31, 2018.

| | June 30, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or Longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Securities available-for-sale | | | | | | |
| U.S. Government-sponsored agencies | $ 4,664 | $ (31) | $ 71,613 | $ (1,516) | $ 76,277 | $ (1,547) |
| Municipal securities | 355 | — | 28,120 | (196) | 28,475 | (196) |
| Mortgage-backed securities | 22,985 | (82) | 140,606 | (3,161) | 163,591 | (3,243) |
| Asset-backed securities | — | — | 4,928 | (72) | 4,928 | (72) |
| Corporate securities | 8,097 | (30) | 22,544 | (1,975) | 30,641 | (2,005) |
| Total | $ 36,101 | $ (143) | $ 267,811 | $ (6,920) | $ 303,912 | $ (7,063) |

| | June 30, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or Longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Securities held-to-maturity | | | | | | |
| Corporate securities | $ 5,595 | $ (40) | $ — | $ — | $ 5,595 | $ (40) |
| Total | $ 5,595 | $ (40) | $ — | $ — | $ 5,595 | $ (40) |

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or Longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Securities available-for-sale | | | | | | |
| U.S. Government-sponsored agencies | $ 69,798 | $ (893) | $ 33,511 | $ (1,173) | $ 103,309 | $ (2,066) |
| Municipal securities | 23,747 | (710) | 59,938 | (3,964) | 83,685 | (4,674) |
| Mortgage-backed securities | 56,177 | (529) | 172,442 | (8,213) | 228,619 | (8,742) |
| Asset-backed securities | 4,859 | (143) | — | — | 4,859 | (143) |
| Corporate securities | 14,092 | (586) | 19,391 | (2,609) | 33,483 | (3,195) |
| Total | $ 168,673 | $ (2,861) | $ 285,282 | $ (15,959) | $ 453,955 | $ (18,820) |

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or Longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Securities held-to-maturity | | | | | | |
| Municipal securities | $ 9,801 | $ (356) | $ — | $ — | $ 9,801 | $ (356) |
| Corporate securities | 6,037 | (56) | — | — | 6,037 | (56) |
| Total | $ 15,838 | $ (412) | $ — | $ — | $ 15,838 | $ (412) |

There were no amounts reclassified from accumulated other comprehensive loss to the condensed consolidated statements of income during the three and six months ended June 30, 2018. Amounts reclassified from accumulated other comprehensive loss and the affected line items in the condensed consolidated statements of income during the three and six months ended June 30, 2019 were as follows:

| | Amounts Reclassified from Accumulated Other Comprehensive Loss for the | | |
|---|---|---|---|
| Details About Accumulated Other Comprehensive Loss Components | Three Months Ended June 30, 2019 | Six Months Ended June 30, 2019 | Affected Line Item in the Statements of Income |
| Realized gains and losses on securities available-for-sale | | | |
| Loss realized in earnings | $ (458) | $ (458) | Loss on sale of securities |
| Total reclassified amount before tax | (458) | (458) | Income Before Income Taxes |
| Tax benefit | (124) | (124) | Income Tax Provision |
| Total reclassifications out of accumulated other comprehensive loss | $ (334) | $ (334) | Net Income |

**Note 4: 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, any unamortized deferred fees or costs on originated loans, and unamortized premiums or discounts on purchased loans.

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

Categories of loans include:

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| Commercial loans | | |
| Commercial and industrial | $ 110,143 | $ 114,382 |
| Owner-occupied commercial real estate | 83,979 | 87,962 |
| Investor commercial real estate | 21,179 | 5,391 |
| Construction | 47,849 | 39,916 |
| Single tenant lease financing | 1,001,196 | 919,440 |
| Public finance | 706,161 | 706,342 |
| Healthcare finance | 212,351 | 117,007 |
| Total commercial loans | 2,182,858 | 1,990,440 |
| Consumer loans | | |
| Residential mortgage | 318,678 | 399,898 |
| Home equity | 26,825 | 28,735 |
| Other consumer | 294,251 | 279,771 |
| Total consumer loans | 639,754 | 708,404 |
| Total commercial and consumer loans | 2,822,612 | 2,698,844 |
| Net deferred loan origination costs and premiums and discounts on purchased loans and other[1] | 38,544 | 17,384 |
| Total loans | 2,861,156 | 2,716,228 |
| Allowance for loan losses | (19,976) | (17,896) |
| Net loans | $ 2,841,180 | $ 2,698,332 |

[1] Includes carrying value adjustments of $22.2 million and $5.0 million as of June 30, 2019 and December 31, 2018, respectively, 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 the Central Indiana and the 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 typically 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. The Company generally 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 on a nationwide basis 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; and equipment financing. The primary sources of repayment for public finance loans are pledged revenue sources including but not limited to: general obligations; property taxes; income taxes; tax increment revenue; utility revenue; gaming revenue; 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.

**Healthcare Finance:** These loans are made to healthcare providers, primarily dentists, for refinancing or acquiring practices, refinancing or acquiring owner-occupied commercial real estate, and equipment purchases. The sources of repayment for these loans are primarily based on the identified cash flows of the borrower (including ongoing operations and activities conducted by the borrower, or an affiliate of the borrower, who owns the property) and secondarily on the underlying collateral provided by the borrower. This portfolio segment is generally concentrated in the Western United States with plans to continue expanding nationwide.

**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 Company's 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.

***Allowance for Loan Losses Methodology***

Company policy is designed to maintain an adequate allowance for loan losses ("ALLL"). The portfolio is segmented by loan type, and the required ALLL for types of performing homogeneous loans which do not have a specific reserve is determined by applying a factor based on average historical losses, adjusted for current economic factors and portfolio trends. Management believes the historical loss experience methodology is appropriate in the current economic environment, as it captures loss rates that are comparable to the current period being analyzed. Management adds qualitative factors for observable trends, changes in internal practices, changes in delinquencies and impairments, and external factors. Observable factors include changes in the composition and size of portfolios, as well as loan terms or concentration levels. The Company evaluates the impact of internal changes such as management and staff experience levels or modification to loan underwriting processes. Delinquency trends are scrutinized for both volume and severity of past due, nonaccrual, or classified loans, as well as any changes in the value of underlying collateral. Finally, the Company considers the effect of other external factors such as national, regional, and local economic and business conditions, as well as competitive, legal, and regulatory requirements. Loans that are considered to be impaired are evaluated to determine the need for a specific allowance by applying at least one of three methodologies: present value of future cash flows; fair value of collateral less costs to sell; or the loan's observable market price. All troubled debt restructurings ("TDR") are considered impaired loans. Loans evaluated for impairment are removed from other pools to prevent double-counting. 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.

***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.

***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.

The following tables present changes in the balance of the ALLL during the three and six months ended June 30, 2019 and 2018.

| | Three Months Ended June 30, 2019 | | | | |
|---|---|---|---|---|---|
| **Allowance for loan losses:** | **Balance, Beginning of Period** | **Provision (Credit) Charged to Expense** | **Losses Charged Off** | **Recoveries** | **Balance, End of Period** |
| Commercial and industrial | $ 1,444 | $ 480 | $ — | $ — | $ 1,924 |
| Owner-occupied commercial real estate | 847 | (223) | — | — | 624 |
| Investor commercial real estate | 103 | 66 | — | — | 169 |
| Construction | 267 | 35 | — | — | 302 |
| Single tenant lease financing | 9,368 | 293 | — | — | 9,661 |
| Public finance | 1,650 | 113 | — | — | 1,763 |
| Healthcare finance | 1,731 | 562 | — | — | 2,293 |
| Residential mortgage | 1,044 | (383) | — | 1 | 662 |
| Home equity | 49 | (5) | — | 4 | 48 |
| Other consumer | 2,338 | 451 | (337) | 78 | 2,530 |
| Total | $ 18,841 | $ 1,389 | $ (337) | $ 83 | $ 19,976 |

| | Six Months Ended June 30, 2019 | | | | |
|---|---|---|---|---|---|
| **Allowance for loan losses:** | **Balance, Beginning of Period** | **Provision (Credit) Charged to Expense** | **Losses Charged Off** | **Recoveries** | **Balance, End of Period** |
| Commercial and industrial | $ 1,479 | $ 557 | $ (112) | $ — | $ 1,924 |
| Owner-occupied commercial real estate | 891 | (267) | — | — | 624 |
| Investor commercial real estate | 61 | 108 | — | — | 169 |
| Construction | 251 | 51 | — | — | 302 |
| Single tenant lease financing | 8,827 | 834 | — | — | 9,661 |
| Public finance | 1,670 | 93 | — | — | 1,763 |
| Healthcare finance | 1,264 | 1,029 | — | — | 2,293 |
| Residential mortgage | 1,079 | (419) | — | 2 | 662 |
| Home equity | 53 | (11) | — | 6 | 48 |
| Other consumer | 2,321 | 699 | (654) | 164 | 2,530 |
| Total | $ 17,896 | $ 2,674 | $ (766) | $ 172 | $ 19,976 |

| Allowance for loan losses: | Three Months Ended June 30, 2018<br>Balance, Beginning of Period | Provision (Credit) Charged to Expense | Losses Charged Off | Recoveries | Balance, End of Period |
|---|---|---|---|---|---|
| Commercial and industrial | $ 1,636 | $ (275) | $ — | $ 3 | $ 1,364 |
| Owner-occupied commercial real estate | 861 | 28 | — | — | 889 |
| Investor commercial real estate | 71 | (4) | — | — | 67 |
| Construction | 367 | (72) | — | — | 295 |
| Single tenant lease financing | 8,093 | 201 | — | — | 8,294 |
| Public finance | 1,118 | 254 | — | — | 1,372 |
| Healthcare finance | 484 | 192 | — | — | 676 |
| Residential mortgage | 984 | (77) | — | 2 | 909 |
| Home equity | 58 | (7) | — | 3 | 54 |
| Other consumer | 1,888 | 427 | (254) | 72 | 2,133 |
| Total | $ 15,560 | $ 667 | $ (254) | $ 80 | $ 16,053 |

| Allowance for loan losses: | Six Months Ended June 30, 2018<br>Balance, Beginning of Period | Provision (Credit) Charged to Expense | Losses Charged Off | Recoveries | Balance, End of Period |
|---|---|---|---|---|---|
| Commercial and industrial | $ 1,738 | $ (377) | $ — | $ 3 | $ 1,364 |
| Owner-occupied commercial real estate | 803 | 86 | — | — | 889 |
| Investor commercial real estate | 85 | (18) | — | — | 67 |
| Construction | 423 | (128) | — | — | 295 |
| Single tenant lease financing | 7,872 | 422 | — | — | 8,294 |
| Public finance | 959 | 413 | — | — | 1,372 |
| Healthcare finance | 313 | 363 | — | — | 676 |
| Residential mortgage | 956 | (41) | (9) | 3 | 909 |
| Home equity | 70 | (23) | — | 7 | 54 |
| Other consumer | 1,751 | 820 | (551) | 113 | 2,133 |
| Total | $ 14,970 | $ 1,517 | $ (560) | $ 126 | $ 16,053 |

The following tables present the recorded investment in loans based on portfolio segment and impairment method as of June 30, 2019 and December 31, 2018.

| | Loans | | | Allowance for Loan Losses | | |
|---|---|---|---|---|---|---|
| **June 30, 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 | $ 103,247 | $ 6,896 | $ 110,143 | $ 1,324 | $ 600 | $ 1,924 |
| Owner-occupied commercial real estate | 78,918 | 5,061 | 83,979 | 624 | — | 624 |
| Investor commercial real estate | 21,179 | — | 21,179 | 169 | — | 169 |
| Construction | 47,849 | — | 47,849 | 302 | — | 302 |
| Single tenant lease financing | 1,001,196 | — | 1,001,196 | 9,661 | — | 9,661 |
| Public finance | 706,161 | — | 706,161 | 1,763 | — | 1,763 |
| Healthcare finance | 212,351 | — | 212,351 | 2,293 | — | 2,293 |
| Residential mortgage | 315,179 | 3,499 | 318,678 | 662 | — | 662 |
| Home equity | 26,825 | — | 26,825 | 48 | — | 48 |
| Other consumer | 294,189 | 62 | 294,251 | 2,530 | — | 2,530 |
| Total | $ 2,807,094 | $ 15,518 | $ 2,822,612 | $ 19,376 | $ 600 | $ 19,976 |

| | Loans | | | Allowance for Loan Losses | | |
|---|---|---|---|---|---|---|
| **December 31, 2018** | **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 | $ 108,742 | $ 5,640 | $ 114,382 | $ 1,479 | $ — | $ 1,479 |
| Owner-occupied commercial real estate | 85,653 | 2,309 | 87,962 | 891 | — | 891 |
| Investor commercial real estate | 5,391 | — | 5,391 | 61 | — | 61 |
| Construction | 39,916 | — | 39,916 | 251 | — | 251 |
| Single tenant lease financing | 919,440 | — | 919,440 | 8,827 | — | 8,827 |
| Public finance | 706,342 | — | 706,342 | 1,670 | — | 1,670 |
| Healthcare finance | 117,007 | — | 117,007 | 1,264 | — | 1,264 |
| Residential mortgage | 399,328 | 570 | 399,898 | 1,079 | — | 1,079 |
| Home equity | 28,680 | 55 | 28,735 | 53 | — | 53 |
| Other consumer | 279,714 | 57 | 279,771 | 2,321 | — | 2,321 |
| Total | $ 2,690,213 | $ 8,631 | $ 2,698,844 | $ 17,896 | $ — | $ 17,896 |

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.

- “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 that 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.

***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.

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 June 30, 2019 and December 31, 2018.

| | June 30, 2019 | | | |
|---|---|---|---|---|
| | Pass | Special Mention | Substandard | Total |
| Commercial and industrial | $ 102,190 | $ 3,869 | $ 4,084 | $ 110,143 |
| Owner-occupied commercial real estate | 75,580 | 5,093 | 3,306 | 83,979 |
| Investor commercial real estate | 21,179 | — | — | 21,179 |
| Construction | 47,849 | — | — | 47,849 |
| Single tenant lease financing | 995,552 | 5,644 | — | 1,001,196 |
| Public finance | 706,161 | — | — | 706,161 |
| Healthcare finance | 212,351 | — | — | 212,351 |
| Total commercial loans | $ 2,160,862 | $ 14,606 | $ 7,390 | $ 2,182,858 |

| | June 30, 2019 | | |
|---|---|---|---|
| | Performing | Nonaccrual | Total |
| Residential mortgage | $ 315,544 | $ 3,134 | $ 318,678 |
| Home equity | 26,825 | — | 26,825 |
| Other consumer | 294,202 | 49 | 294,251 |
| Total consumer loans | $ 636,571 | $ 3,183 | $ 639,754 |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Pass | Special Mention | Substandard | Total |
| Commercial and industrial | $ 107,666 | $ 1,076 | $ 5,640 | $ 114,382 |
| Owner-occupied commercial real estate | 81,264 | 4,389 | 2,309 | 87,962 |
| Investor commercial real estate | 5,391 | — | — | 5,391 |
| Construction | 39,916 | — | — | 39,916 |
| Single tenant lease financing | 913,984 | 5,456 | — | 919,440 |
| Public finance | 706,342 | — | — | 706,342 |
| Healthcare finance | 117,007 | — | — | 117,007 |
| Total commercial loans | $ 1,971,570 | $ 10,921 | $ 7,949 | $ 1,990,440 |

| | December 31, 2018 | | |
|---|---|---|---|
| | Performing | Nonaccrual | Total |
| Residential mortgage | $ 399,723 | $ 175 | $ 399,898 |
| Home equity | 28,680 | 55 | 28,735 |
| Other consumer | 279,729 | 42 | 279,771 |
| Total consumer loans | $ 708,132 | $ 272 | $ 708,404 |

The following tables present the Company's loan portfolio delinquency analysis as of June 30, 2019 and December 31, 2018.

| | June 30, 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Current | Total Loans | Non-accrual Loans | Total Loans 90 Days or More Past Due and Accruing |
| Commercial and industrial | $ 1,414 | $ — | $ — | $ 1,414 | $ 108,729 | $ 110,143 | $ 1,604 | $ — |
| Owner-occupied commercial real estate | — | — | — | — | 83,979 | 83,979 | 478 | — |
| Investor commercial real estate | — | — | — | — | 21,179 | 21,179 | — | — |
| Construction | — | — | — | — | 47,849 | 47,849 | — | — |
| Single tenant lease financing | — | 1,557 | — | 1,557 | 999,639 | 1,001,196 | — | — |
| Public finance | — | — | — | — | 706,161 | 706,161 | — | — |
| Healthcare finance | — | — | — | — | 212,351 | 212,351 | — | — |
| Residential mortgage | — | 146 | 3,238 | 3,384 | 315,294 | 318,678 | 3,134 | 121 |
| Home equity | — | — | — | — | 26,825 | 26,825 | — | — |
| Other consumer | 301 | 72 | 6 | 379 | 293,872 | 294,251 | 49 | — |
| Total | $ 1,715 | $ 1,775 | $ 3,244 | $ 6,734 | $ 2,815,878 | $ 2,822,612 | $ 5,265 | $ 121 |

| | December 31, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Current | Total Loans | Non-accrual Loans | Total Loans 90 Days or More Past Due and Accruing |
| Commercial and industrial | $ 9 | $ — | $ — | $ 9 | $ 114,373 | $ 114,382 | $ 195 | $ — |
| Owner-occupied commercial real estate | 92 | 234 | — | 326 | 87,636 | 87,962 | 325 | — |
| Investor commercial real estate | — | — | — | — | 5,391 | 5,391 | — | — |
| Construction | — | — | — | — | 39,916 | 39,916 | — | — |
| Single tenant lease financing | — | — | — | — | 919,440 | 919,440 | — | — |
| Public finance | — | — | — | — | 706,342 | 706,342 | — | — |
| Healthcare finance | — | — | — | — | 117,007 | 117,007 | — | — |
| Residential mortgage | — | 3,118 | 98 | 3,216 | 396,682 | 399,898 | 175 | 97 |
| Home equity | — | — | 55 | 55 | 28,680 | 28,735 | 55 | — |
| Other consumer | 235 | 170 | 4 | 409 | 279,362 | 279,771 | 42 | — |
| Total | $ 336 | $ 3,522 | $ 157 | $ 4,015 | $ 2,694,829 | $ 2,698,844 | $ 792 | $ 97 |

***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 as well as 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.

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.

The following table presents the Company's impaired loans as of June 30, 2019 and December 31, 2018.

| | June 30, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Recorded Balance | Unpaid Principal Balance | Specific Allowance | Recorded Balance | Unpaid Principal Balance | Specific Allowance |
| Loans without a specific valuation allowance | | | | | | |
| Commercial and industrial | $ 5,484 | $ 5,496 | $ — | $ 5,640 | $ 5,652 | $ — |
| Owner-occupied commercial real estate | 5,061 | 5,061 | — | 2,309 | 2,309 | — |
| Residential mortgage | 3,499 | 3,500 | — | 570 | 570 | — |
| Home equity | — | — | — | 55 | 55 | — |
| Other consumer | 62 | 145 | — | 57 | 124 | — |
| Total | 14,106 | 14,202 | — | 8,631 | 8,710 | — |
| Loans with a specific valuation allowance | | | | | | |
| Commercial and industrial | 1,412 | 1,412 | 600 | — | — | — |
| Total | 1,412 | 1,412 | 600 | — | — | — |
| Total impaired loans | $ 15,518 | $ 15,614 | $ 600 | $ 8,631 | $ 8,710 | $ — |

The table below presents average balances and interest income recognized for impaired loans during the three and six months ended June 30, 2019 and 2018.

| | Three Months Ended | | | | Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2019 | | June 30, 2018 | | June 30, 2019 | | June 30, 2018 | |
| | Average Balance | Interest Income | Average Balance | Interest Income | Average Balance | Interest Income | Average Balance | Interest Income |
| Loans without a specific valuation allowance | | | | | | | | |
| Commercial and industrial | $ 4,053 | $ 86 | $ 5,183 | $ 87 | $ 4,376 | $ 167 | $ 2,264 | $ 162 |
| Owner-occupied commercial real estate | 2,723 | 66 | 402 | 7 | 2,464 | 93 | 102 | 7 |
| Residential mortgage | 3,538 | — | 653 | — | 2,796 | — | 433 | — |
| Home equity | — | — | 83 | — | 21 | — | 42 | — |
| Other consumer | 83 | — | 113 | — | 79 | — | 57 | — |
| Total | 10,397 | 152 | 6,434 | 94 | 9,736 | 260 | 2,898 | 169 |
| Loans with a specific valuation allowance | | | | | | | | |
| Commercial and industrial | 353 | — | — | — | 177 | — | — | — |
| Total | 353 | — | — | — | 177 | — | — | — |
| Total impaired loans | $ 10,750 | $ 152 | $ 6,434 | $ 94 | $ 9,913 | $ 260 | $ 2,898 | $ 169 |

The Company had $0.6 million in residential mortgage other real estate owned as of June 30, 2019 and December 31, 2018. There was one residential mortgage loan with a balance of $3.1 million in the process of foreclosure at June 30, 2019. There were no loans in the process of foreclosure at December 31, 2018.

***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 four commercial and industrial loans classified as new TDRs during the three and six months ended June 30, 2019 with a pre-modification and post-modification outstanding recorded investment of $2.0 million. There were no loans classified as new TDRs during the three and six months ended June 30, 2018. The Company did not allocate a specific allowance for those loans as of June 30, 2019. The modifications consisted of interest-only payments for a period of time. There were no performing TDRs that had payment defaults within the twelve months following modification during the three and six months ended June 30, 2019 and 2018.

## Note 5: Premises and Equipment

The following table summarizes premises and equipment at June 30, 2019 and December 31, 2018.

| *(in thousands)* | June 30, 2019 | December 31, 2018 |
|---|---|---|
| Land | $ 2,500 | $ 2,500 |
| Right of use leased asset | 1,743 | — |
| Building and improvements | 8,980 | 6,752 |
| Furniture and equipment | 9,701 | 9,076 |
| Less: accumulated depreciation | (8,519) | (7,631) |
| Total | $ 14,405 | $ 10,697 |

## 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 13 for further information regarding transition guidance related to the new standard.

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

The following table shows the components of lease expense.

| *(in thousands)* | Three Months Ended June 30, 2019 | Six Months Ended Jun 2019 |
|---|---|---|
| Operating lease cost | $ 187 | |

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

| *(in thousands)* | Six Months Ended J[cut off] 2019 |
|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash flows from operating leases | $ |

The following table shows the operating leases' impact on the condensed 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)* | June 30, 2019 |
|---|---|
| Operating lease right-of-use assets | $ 1,743 |
| Operating lease liabilities | 1,743 |
| | |
| Weighted average remaining lease term (years) | |
| Operating leases | 2.8 |
| | |
| Weighted average discount rate | |
| Operating leases | 1.9% |

The following table shows the future minimum payments of operating leases with initial or remaining terms of one year or more as of June 30, 2019.

| *(in thousands)* | |
|---|---|
| Twelve months ended June 30, | |
| 2020 | $ 753 |
| 2021 | 584 |
| 2022 | 226 |
| 2023 | 232 |
| 2024 | — |
| Thereafter | — |
| Total lease payments | 1,795 |
| Less imputed interest | (68) |
| Total | $ 1,727 |

**Note 7: Goodwill**

As of June 30, 2019 and December 31, 2018, the carrying amount of goodwill was $4.7 million. There have been no changes in the carrying amount of goodwill for the three months ended June 30, 2019. Goodwill is tested for impairment on an annual basis as of August 31, or whenever events or changes in circumstances indicate the carrying amount of goodwill exceeds its implied fair value. No events or changes in circumstances have occurred since the August 31, 2018 annual impairment test that would suggest it was more likely than not goodwill impairment existed.

**Note 8: 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 bears a fixed interest rate of 6.4375% per year, payable quarterly, and is scheduled to mature on October 1, 2025. The 2025 Note is an unsecured subordinated obligation of the Company and may 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.

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 6.0% per year to, but excluding September 30, 2021, and thereafter a floating rate equal to the then-current three-month LIBOR rate plus 485 basis points. 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.

The following table presents the principal balance and unamortized debt issuance costs for the 2025 Note, the 2026 Notes and the 2029 Notes as of June 30, 2019 and December 31, 2018.

| | June 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Principal | Unamortized Debt Issuance Costs | Principal | Unamortized Debt Issuance Costs |
| 2025 Note | 10,000 | (150) | 10,000 | (162) |
| 2026 Notes | 25,000 | (901) | 25,000 | (963) |
| 2029 Notes | 37,000 | (1,574) | — | — |
| Total | $ 72,000 | $ (2,625) | $ 35,000 | $ (1,125) |

**Note 9: Benefit Plans**

***Employment Agreement***

The Company is party to 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 of our Board of Directors. 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.

***2013 Equity Incentive Plan***

The 2013 Equity Incentive Plan (the "2013 Plan") authorizes the issuance of 750,000 shares of the Company's common stock in the form of equity-based awards to employees, directors, and other eligible persons. 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 $0.4 million and $0.9 million of share-based compensation expense for the three and six months ended June 30, 2019, respectively, related to awards made under the 2013 Plan. The Company recorded $0.3 million and $0.9 million of share-based compensation expense for the three and six months ended June 30, 2018, respectively, related to awards made under the 2013 Plan.

The following table summarizes the status of the 2013 Plan awards as of June 30, 2019, and activity for the six months ended June 30, 2019.

| | 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 Share |
|---|---|---|---|---|---|---|
| Nonvested at December 31, 2018 | 75,554 | $ 35.34 | 1,666 | $ 24.44 | — | $ — |
| Granted | 74,493 | 24.62 | 11,742 | 24.62 | 6 | 22.32 |
| Vested | (36,218) | 33.08 | (7,540) | 24.58 | (6) | 22.32 |
| Forfeited | (6,790) | 29.10 | — | — | — | — |
| Nonvested at June 30, 2019 | 107,039 | $ 29.04 | 5,868 | $ 24.62 | — | $ — |

At June 30, 2019, the total unrecognized compensation cost related to nonvested awards was $2.8 million with a weighted-average expense recognition period of 2.1 years.

***Directors Deferred Stock Plan***

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

The following table summarizes the status of deferred stock rights related to the Directors Deferred Stock Plan for the six months ended June 30, 2019.

| | Deferred Stock Rights |
|---|---|
| Outstanding, beginning of period | 83,521 |
| Granted | 491 |
| Exercised | — |
| Outstanding, end of period | 84,012 |

All deferred stock rights granted during the 2019 period were additional rights issued in lieu of cash dividends payable on outstanding deferred stock rights.

**Note 10: Fair Value of Financial Instruments**

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

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

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

***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. Fair values are calculated using discounted cash flows. Discounted cash flows are calculated based off of the anticipated future cash flows updated to incorporate loss severities. 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 June 30, 2019 or December 31, 2018.

***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).

***Interest Rate Swap Agreements***

The fair value of interest rate swap agreements is 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 and, therefore, are classified within Level 2 of the valuation hierarchy.

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

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying condensed consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2019 and December 31, 2018.

| | | June 30, 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 | $ 87,737 | $ — | $ 87,737 | $ — |
| Municipal securities | 96,988 | — | 96,988 | — |
| Mortgage-backed securities | 295,988 | — | 295,988 | — |
| Asset-backed securities | 4,928 | — | 4,928 | — |
| Corporate securities | 36,693 | — | 36,693 | — |
| Total available-for-sale securities | 522,334 | — | 522,334 | — |
| Interest rate swap liabilities | (39,076) | — | (39,076) | — |
| Loans held-for-sale (mandatory pricing agreements) | 30,642 | — | 30,642 | — |
| Forward contracts | (549) | (549) | — | — |
| IRLCs | 1,209 | — | — | 1,209 |

| | | December 31, 2018 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 | $ 107,585 | $ — | $ 107,585 | $ — |
| Municipal securities | 92,506 | — | 92,506 | — |
| Mortgage-backed securities | 242,912 | — | 242,912 | — |
| Asset-backed securities | 4,859 | — | 4,859 | — |
| Corporate securities | 33,483 | — | 33,483 | — |
| Total available-for-sale securities | 481,345 | — | 481,345 | — |
| Interest rate swap assets | 1,579 | | 1,579 | |
| Interest rate swap liabilities | (10,727) | — | (10,727) | — |
| Loans held-for-sale (mandatory pricing agreements) | 18,328 | — | 18,328 | — |
| Forward contracts | (360) | (360) | — | — |
| IRLCs | 389 | — | — | 389 |

The following tables reconcile the beginning and ending balances of recurring fair value measurements recognized in the accompanying condensed consolidated balance sheets using significant unobservable (Level 3) inputs for the three and six months ended June 30, 2019 and 2018.

| | Three Months Ended | |
|---|---|---|
| | Interest Rate Lock Commitments | |
| Balance, April 1, 2019 | $ | 781 |
| Total realized gains | | |
| Included in net income | | 428 |
| Balance, June 30, 2019 | $ | 1,209 |
| | | |
| Balance, April 1, 2018 | $ | 732 |
| Total realized losses | | |
| Included in net income | | (8) |
| Balance, June 30, 2018 | $ | 724 |

| | Six Months Ended | |
|---|---|---|
| | Interest Rate Lock Commitments | |
| Balance, January 1, 2019 | $ | 389 |
| Total realized gains | | |
| Included in net income | | 820 |
| Balance, June 30, 2019 | $ | 1,209 |
| | | |
| Balance as of January 1, 2018 | $ | 551 |
| Total realized gains | | |
| Included in net income | | 173 |
| Balance, June 30, 2018 | $ | 724 |

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 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.

***Other Real Estate Owned***

Other real estate owned is a Level 3 asset that is adjusted to fair value less estimated selling costs, upon transfer to other real estate owned. When a current appraised value is not available, or management determines the fair value of the collateral is further impaired below the appraised value as a result of known changes in the market or the collateral and there is no observable market price, such valuation inputs result in a fair value measurement. To the extent a negotiated sales price or reduced listing price represents a significant discount to an observable market price, such valuation input would result in a fair value measurement that is also considered a Level 3 measurement.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying condensed consolidated balance sheets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurement falls at December 31, 2018. There were no fair value measurements of assets and liabilities recognized on a nonrecurring basis at June 30, 2019.

| | | December 31, 2018 | | |
|---|---|---|---|---|
| | | 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) |
| Other real estate owned | $ 2,065 | $ — | $ — | $ 2,065 |

***Significant Unobservable (Level 3) Inputs***

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

| | Fair Value at June 30, 2019 | Valuation Technique | Significant Unobservable Inputs | Range |
|---|---|---|---|---|
| IRLCs | $ 1,209 | Discounted cash flow | Loan closing rates | 35% - 100% |

| | Fair Value at December 31, 2018 | Valuation Technique | Significant Unobservable Inputs | Range |
|---|---|---|---|---|
| IRLCs | $ 389 | Discounted cash flow | Loan closing rates | 34% - 100% |

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

*Cash and Cash Equivalents*

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

*Interest-Bearing Time Deposits*

The fair value of these financial instruments approximates carrying value.

*Securities Held-to-Maturity*

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 available for advances with 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 each of June 30, 2019 and December 31, 2018.

The following tables present the carrying value and estimated fair value of all financial assets and liabilities at June 30, 2019 and December 31, 2018.

| | June 30, 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 | $ 348,298 | $ 348,298 | $ 348,298 | $ — | $ — |
| Securities held-to-maturity | 35,826 | 36,288 | — | 36,288 | — |
| Net loans | 2,841,180 | 2,820,278 | — | — | 2,820,278 |
| Accrued interest receivable | 18,887 | 18,887 | 18,887 | — | — |
| Federal Home Loan Bank of Indianapolis stock | 25,650 | 25,650 | — | 25,650 | — |
| Deposits | 3,006,263 | 3,046,347 | 810,003 | — | 2,236,344 |
| Advances from Federal Home Loan Bank | 514,906 | 522,132 | — | 522,132 | — |
| Subordinated debt | 69,375 | 74,895 | 64,670 | 10,225 | — |
| Accrued interest payable | 2,930 | 2,930 | 2,930 | — | — |

| | December 31, 2018 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 | $ 188,712 | $ 188,712 | $ 188,712 | $ — | $ — |
| Securities held-to-maturity | 22,750 | 22,418 | — | 22,418 | — |
| Net loans | 2,698,332 | 2,646,060 | — | — | 2,646,060 |
| Accrued interest receivable | 16,822 | 16,822 | 16,822 | — | — |
| Federal Home Loan Bank of Indianapolis stock | 23,625 | 23,625 | — | 23,625 | — |
| Deposits | 2,671,351 | 2,687,666 | 731,378 | — | 1,956,288 |
| Advances from Federal Home Loan Bank | 525,153 | 520,120 | — | 520,120 | — |
| Subordinated debt | 33,875 | 34,490 | 24,250 | 10,240 | — |
| Accrued interest payable | 1,108 | 1,108 | 1,108 | — | — |

**Note 11: Mortgage Banking Activities**

The Company's residential real estate lending business originates mortgage loans for customers and typically sells a majority of the originated loans into the secondary market. For most of the mortgages it sells in 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 12 for further information on derivative financial instruments.

During the three months ended June 30, 2019 and 2018, the Company originated mortgage loans held-for-sale of $145.0 million and $95.9 million, respectively, and sold $130.4 million and $93.9 million of mortgage loans, respectively, into the secondary market. During the six months ended June 30, 2019 and 2018, the Company originated mortgage loans held-for-sale of $220.3 million and $178.4 million, respectively, and sold $211.4 million and $184.8 million of mortgage loans, respectively, into the secondary market.

The following table presents the components of income from mortgage banking activities for the three and six months ended June 30, 2019 and 2018.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Gain on loans sold | $ 1,825 | $ 1,493 | $ 3,298 | $ 3,165 |
| (Loss) gain resulting from the change in fair value of loans held-for-sale | (170) | 151 | (352) | (82) |
| Gain (loss) resulting from the change in fair value of derivatives | 1,009 | (47) | 1,335 | 92 |
| Net revenue from mortgage banking activities | $ 2,664 | $ 1,597 | $ 4,281 | $ 3,175 |

Fluctuations in interest rates and changes in IRLC and loan volume within the mortgage banking pipeline may cause volatility in the fair value of loans held-for-sale and the fair value of derivatives used to hedge the mortgage banking pipeline.

## Note 12: 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 condensed consolidated statements of income 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. For 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 condensed consolidated balance sheets, while interest rate swaps with a negative fair value are reported in accrued expenses and other liabilities in the condensed 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 on the condensed consolidated statements of income. The fair value of derivative instruments with a positive fair value are reported in accrued income and other assets in the condensed consolidated balance sheets, while derivative instruments with a negative fair value are reported in accrued expenses and other liabilities in the condensed consolidated balance sheets.

The following table presents amounts that were recorded on the condensed consolidated balance sheets related to cumulative basis adjustments for interest rate swap derivatives designated as fair value accounting hedges as of June 30, 2019 and December 31, 2018.

| Line item in the condensed consolidated balance sheets in which the hedged item is included | Carrying amount of the hedged asset<br>June 30, 2019 | Carrying amount of the hedged asset<br>December 31, 2018 | Cumulative amount of fair value hedging adjustmen included in the carrying amount of the hedged asset<br>June 30, 2019 | Cumulative amount of fair value hedging adjustmen included in the carrying amount of the hedged asset<br>December 31, 2018 |
|---|---|---|---|---|
| Loans | $ 487,002 | $ 474,233 | $ 22,177 | $ 4,[illegible] |
| Securities available-for-sale [(1)] | 157,867 | 159,188 | 2,940 | ([illegible] |

[(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. At both June 30, 2019 and December 31, 2018, the amounts of the designated hedged items were $88.2 million.

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 June 30, 2019 and December 31, 2018, identified by the underlying interest rate-sensitive instruments.

| June 30, 2019<br>Instruments Associated With | Notional Value | Weighted Average Remaining Maturity (years) | Fair Value | Weighted-Average Ratio<br>Receive | Weighted-Average Ratio<br>Pay |
|---|---|---|---|---|---|
| Loans | $ 435,532 | 6.0 | $ (22,319) | 3-month LIBOR | 2.[illegible] |
| Securities available-for-sale | 88,200 | 4.6 | (2,936) | 3-month LIBOR | 2.[illegible] |
| Total at June 30, 2019 | $ 523,732 | 5.8 | $ (25,255) | 3-month LIBOR | 2.[illegible] |

| December 31, 2018 | Notional | Weighted Average Remaining Maturity | | Weighted-Average Ratio | |
|---|---|---|---|---|---|
| **Instruments Associated With** | **Value** | **(years)** | **Fair Value** | **Receive** | **Pay** |
| Loans | $ 435,926 | 6.5 | $ (5,025) | 3-month LIBOR | 2.8 |
| Securities available-for-sale | 88,200 | 5.1 | 235 | 3-month LIBOR | 2.5 |
| Total at December 31, 2018 | $ 524,126 | 6.3 | $ (4,790) | 3-month LIBOR | 2.8 |

The following table presents 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 June 30, 2019 and December 31, 2018.

| June 30, 2019 | Notional | Weighted Average Remaining Maturity | | Weighted-Average Ratio | |
|---|---|---|---|---|---|
| **Cash Flow Hedges** | **Value** | **(years)** | **Fair Value** | **Receive** | **Pay** |
| Interest rate swaps | $ 110,000 | 7.8 | $ (4,679) | 3-month LIBOR | 2. |
| Interest rate swaps | 100,000 | 4.7 | (3,251) | 1-month LIBOR | 2. |

| December 31, 2018 | Notional | Weighted Average Remaining Maturity | | Weighted-Average Ratio | |
|---|---|---|---|---|---|
| **Cash Flow Hedges** | **Value** | **(years)** | **Fair Value** | **Receive** | **Pay** |
| Interest rate swaps | $ 110,000 | 8.1 | $ (2,293) | 3-month LIBOR | 2.8 |
| Interest rate swaps | 100,000 | 5.0 | (2,065) | 1-month LIBOR | 2.8 |

These derivative financial instruments were entered into for the purpose of managing the interest rate risk of certain assets and liabilities. The Company pledged $43.2 million and $7.0 million of cash collateral to counterparties as security for its obligations related to these interest rate swap transactions at June 30, 2019 and December 31, 2018, 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 June 30, 2019 and December 31, 2018.

| | June 30, 2019 | | | | December 31, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Notional Amount | | Fair Value | | Notional Amount | | Fair Value | |
| **Asset Derivatives** | | | | | | | | |
| Derivatives designated as hedging instruments | | | | | | | | |
| Interest rate swaps associated with loans | $ | — | $ | — | $ | 91,135 | $ | 986 |
| Interest rate swaps associated with securities available-for-sale | | — | | — | | 50,000 | | 593 |
| Derivatives not designated as hedging instruments | | | | | | | | |
| IRLCs | | 62,555 | | 1,209 | | 15,136 | | 389 |
| Total contracts | $ | 62,555 | $ | 1,209 | $ | 156,271 | $ | 1,968 |
| **Liability Derivatives** | | | | | | | | |
| Derivatives designated as hedging instruments | | | | | | | | |
| Interest rate swaps associated with loans | $ | 435,532 | $ | (22,319) | $ | 344,791 | $ | (6,011) |
| Interest rate swaps associated with securities available-for-sale | | 88,200 | | (2,936) | | 38,200 | | (358) |
| Interest rate swaps associated with liabilities | | 210,000 | | (13,822) | | 210,000 | | (4,358) |
| Derivatives not designated as hedging instruments | | | | | | | | |
| Forward contracts | | 101,000 | | (549) | | 32,500 | | (360) |
| Total contracts | $ | 834,732 | $ | (39,626) | $ | 625,491 | $ | (11,087) |

The fair value of interest rate swaps was estimated using a discounted cash flow method that incorporates current market interest rates as of the balance sheet date. Fair 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 condensed consolidated statements of comprehensive income during the three and six months ended June 30, 2019 and 2018.

| | Amount of Loss Recognized in Other Comprehensive Income in the Three Months Ended | | | | Amount of Loss Recognized in Other Comprehensive Income in the Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2019 | | June 30, 2018 | | June 30, 2019 | | June 30, 2018 | |
| Interest rate swap agreements | $ | (5,892) | $ | (958) | $ | (9,464) | $ | (958) |

The following table summarizes the periodic changes in the fair value of derivatives not designated as hedging instruments on the condensed consolidated statements of income for the three and six months ended June 30, 2019 and 2018.

| | Amount of Gain / (Loss) Recognized in the Three Months Ended | | | | Amount of gain / (loss) recognized in the Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2019 | | June 30, 2018 | | June 30, 2019 | | June 30, 2018 | |
| **Asset Derivatives** | | | | | | | | |
| Derivatives not designated as hedging instruments | | | | | | | | |
| IRLCs | $ | 428 | $ | (8) | $ | 820 | $ | 173 |
| **Liability Derivatives** | | | | | | | | |
| Derivatives not designated as hedging instruments | | | | | | | | |
| Forward contracts | $ | (122) | $ | (39) | $ | (189) | $ | (81) |

The following table presents the effects of the Company's interest rate swap agreements on the condensed consolidated statements of income during the three and six months ended June 30, 2019 and 2018.

| Line item in the condensed consolidated statements of income | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2019 | June 30, 2018 | June 30, 2019 | June 30, 2018 |
| Interest income | | | | |
| Loans | $ (285) | $ 17 | $ (264) | $ 17 |
| Securities - taxable | (10) | (46) | (17) | (76) |
| Securities - non-taxable | 27 | 4 | 72 | 18 |
| Total interest income | (268) | (25) | (209) | (41) |
| Interest expense | | | | |
| Deposits | 104 | — | 194 | — |
| Other borrowed funds | 79 | 15 | 113 | 15 |
| Total interest expense | 183 | 15 | 307 | 15 |
| Net interest income | $ (451) | $ (40) | $ (516) | $ (56) |

**Note 13: Recent Accounting Pronouncements**

ASU 2016-02 - *Leases (Topic 842)* (February 2016)

In February 2016, the FASB amended its standards with respect to the accounting for leases. This ASU replaces all current GAAP guidance on this topic and requires that an operating lease be recognized by the lessee on the balance sheet as a “right-of-use” asset along with a corresponding liability representing the rent obligation. Key aspects of current lessor accounting remain unchanged from existing guidance. The amended standard has resulted in an increase to assets and liabilities recognized and, therefore, increased risk-weighted assets for regulatory capital purposes.

In July 2018, the FASB issued ASU 2018-10 - *Codification Improvements to Topic 842*, *Leases* and ASU 2018-11, *Leases (Topic 842): Targeted Improvements*. ASU 2018-11 allows entities adopting ASU 2016-02 to choose an additional (and optional) transition method, under which an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company elected the optional transition method permitted by ASU 2018-11, which allowed the Company to recognize and measure leases that exist at the application date. Under this method, an entity must recognize and measure leases that exist at the application date and prior comparative periods are not adjusted.

The new ASU provides a number of optional practical expedients in transition. The Company has elected the practical expedients that allowed the Company to retain the classifications of existing leases, rather than re-assessing if existing leases have initial direct costs, and to use hindsight when determining the lease term and assessment of impairment. The Company also elected a practical expedient to not assess whether existing or expired land easements that were not previously accounted for as leases under ASC Topic 840 contain a lease.

The Company adopted the guidance on January 1, 2019 using the optional transition method and the adoption of the guidance did not have a material impact on the condensed consolidated financial statements. As a result, the Company recognized a $1.9 million increase in assets and liabilities on the condensed consolidated balance sheets. Refer to Note 6 for additional disclosure information.

In March 2019, the FASB issued ASU 2019-01 - *Leases (Topic 842): Codification Improvements*. This ASU (1) states that for lessors that are not manufacturers or dealers, the fair value of the underlying asset is its cost, less any volume or trade discounts, as long as there is not a significant amount of time between acquisition of the asset and lease commencement; (2) clarifies that lessors in the scope of ASC Topic 942, such as the Company, must classify principal payments received from sales-type and direct financing leases in investing activities in the statements of cash flows; and (3) clarifies the transition guidance related to certain interim disclosures provided in the year of adoption. To coincide with the adoption of ASU 2016-02, the Company elected to early adopt ASU 2019-01 on January 1, 2019. The adoption of the guidance did not have a material impact on the condensed consolidated financial statements.

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. 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 condensed 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 this year 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 CECL models using appropriate methodologies.

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 are effective for public companies for fiscal years, and interim fiscal periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the condensed consolidated financial statements.

ASU 2018-16 - *Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate ("SOFR") Overnight Index Swap ("OIS") Rate as a Benchmark Interest Rate for Hedge Accounting Purposes* (October 2018)

The amendments in this ASU allow all entities that elect to apply hedge accounting to benchmark interest rate hedges under ASC Topic 815, *Derivatives and Hedging*, to use the OIS rate based on SOFR as a benchmark interest rate, in addition to the four eligible benchmark interest rates. The Company adopted this ASU effective December 31, 2018 and it did not have a material impact on the condensed 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 these Topics. 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 has the same effective dates as ASU 2016-13 and the Company is currently evaluating the potential impact of these amendments on the condensed consolidated financial statements. With respect to Topic 815, ASU 2019-04 clarifies issues related to partial-term hedges, hedged debt securities, and transitional from a quantitative method of assessing hedge effectiveness to a more simplified method. With respect to Topic 825, 2019-04 addresses the scope of the guidance, the requirement for remeasurement under ASC 820 when using the measurement alternative, certain disclosure requirements, and which equity securities have to be remeasured at historical exchanges rates. The amendments to Topic 825 are effective for interim and annual reporting periods beginning after December 15, 2019 and are not expected to have a material impact on the condensed consolidated financial statements.

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this report. This discussion and analysis includes certain forward-looking statements that involve risks, uncertainties, and assumptions. You should review the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2018 for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by such forward-looking statements. See also "Cautionary Note Regarding Forward-Looking Statements" at the beginning of this report.*

***Overview***

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

The Bank has three wholly-owned subsidiaries. First Internet Public Finance Corp. 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, manages other real estate owned ("OREO") properties as needed. SPF15, Inc. is a real estate holding company.

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

Our commercial banking products and services are delivered through a relationship banking model and include commercial real estate ("CRE") banking, commercial and industrial ("C&I") banking, public finance, healthcare finance 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. To meet the needs of commercial borrowers and depositors located primarily in Central Indiana, Phoenix, Arizona and adjacent markets, our C&I banking team provides credit solutions such as lines of credit, term loans, owner-occupied CRE loans and corporate credit cards. Additionally, we have begun adding experienced personnel to build out our capabilities in small business lending and U.S. government guaranteed lending programs. Currently, these activities are part of our C&I banking team, but we have plans to continue adding resources in this area in order to originate U.S. government guaranteed loans on a nationwide basis. 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 Lendeavor, Inc., a San Francisco-based technology-enabled lender to healthcare practices, and provides lending for healthcare practice finance or acquisition, acquiring or refinancing owner-occupied CRE and equipment purchases. This portfolio segment is generally concentrated in the Western United States with plans to continue expanding nationwide. 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.

***Results of Operations***

The following table presents a summary of the Company's financial performance for the last five completed fiscal quarters and the six months ended June 30, 2019 and 2018.

| | Three Months Ended | | | | | Six Months Ended | |
|---|---|---|---|---|---|---|---|
| *(dollars in thousands except for per share data)* | **June 30, 2019** | **March 31, 2019** | **December 31, 2018** | **September 30, 2018** | **June 30, 2018** | **June 30, 2019** | **June 30, 2018** |
| **Income Statement Summary:** | | | | | | | |
| Net interest income | $ 16,105 | $ 16,244 | $ 15,421 | $ 15,970 | $ 15,461 | $ 32,349 | $ 30,876 |
| Provision for loan losses | 1,389 | 1,285 | 1,487 | 888 | 667 | 2,674 | 1,517 |
| Noninterest income | 3,454 | 2,372 | 2,047 | 1,994 | 2,177 | 5,826 | 4,719 |
| Noninterest expense | 11,709 | 11,109 | 12,739 | 10,045 | 10,182 | 22,818 | 20,399 |
| Income tax provision (benefit) | 340 | 526 | (334) | 743 | 781 | 866 | 1,643 |
| Net income | $ 6,121 | $ 5,696 | $ 3,576 | $ 6,288 | $ 6,008 | $ 11,817 | $ 12,036 |
| **Per Share Data:** | | | | | | | |
| Earnings per share - basic | $ 0.60 | $ 0.56 | $ 0.35 | $ 0.61 | $ 0.67 | $ 1.16 | $ 1.38 |
| Earnings per share - diluted | $ 0.60 | $ 0.56 | $ 0.35 | $ 0.61 | $ 0.67 | $ 1.16 | $ 1.38 |
| Dividends declared per share | $ 0.06 | $ 0.06 | $ 0.06 | $ 0.06 | $ 0.06 | $ 0.12 | $ 0.12 |
| Book value per common share | $ 29.56 | $ 29.03 | $ 28.39 | $ 28.26 | $ 27.71 | $ 29.56 | $ 27.71 |
| Tangible book value per common share [1] | $ 29.10 | $ 28.57 | $ 27.93 | $ 27.80 | $ 27.25 | $ 29.10 | $ 27.25 |
| Common shares outstanding | 10,016,458 | 10,128,587 | 10,170,778 | 10,181,675 | 10,181,675 | 10,016,458 | 10,181,675 |
| Average common shares outstanding: | | | | | | | |
| Basic | 10,148,285 | 10,217,637 | 10,263,086 | 10,261,967 | 8,909,913 | 10,182,770 | 8,705,689 |
| Diluted | 10,148,285 | 10,230,531 | 10,275,040 | 10,273,766 | 8,919,460 | 10,186,833 | 8,731,331 |
| Dividend payout ratio [2] | 10.00% | 10.71% | 17.14% | 9.84% | 8.96% | 10.34% | 8.70% |
| **Performance Ratios:** | | | | | | | |
| Return on average assets | 0.65% | 0.64% | 0.43% | 0.79% | 0.82% | 0.64% | 0.84% |
| Return on average shareholders' equity | 8.26% | 7.91% | 4.89% | 8.75% | 10.11% | 8.09% | 10.51% |
| Return on average tangible common equity [1] | 8.39% | 8.04% | 4.98% | 8.89% | 10.31% | 8.22% | 10.73% |
| Net interest margin | 1.73% | 1.86% | 1.89% | 2.06% | 2.17% | 1.79% | 2.22% |
| Net interest margin - FTE [1,3] | 1.91% | 2.04% | 2.07% | 2.23% | 2.33% | 1.97% | 2.37% |
| Noninterest expense to average assets | 1.23% | 1.24% | 1.52% | 1.27% | 1.40% | 1.55% | 1.87% |
| **Capital Ratios:** | | | | | | | |
| Total shareholders' equity to assets | 7.48% | 8.01% | 8.15% | 8.98% | 9.05% | 7.48% | 9.05% |
| Tangible common equity to tangible assets ratio [1] | 7.37% | 7.89% | 8.03% | 8.85% | 8.92% | 7.37% | 8.92% |
| Tier 1 leverage ratio | 8.06% | 8.34% | 9.00% | 9.40% | 9.93% | 8.06% | 9.93% |
| Common equity tier 1 capital ratio | 11.08% | 11.66% | 12.39% | 13.14% | 13.54% | 11.08% | 13.54% |
| Tier 1 capital ratio | 11.08% | 11.66% | 12.39% | 13.14% | 13.54% | 11.08% | 13.54% |
| Total risk-based capital ratio | 14.31% | 13.68% | 14.53% | 15.38% | 15.85% | 14.31% | 15.85% |

[1] This information represents a non-GAAP financial measure. See the "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of these measures to their most directly comparable GAAP measures.
[2] Dividends per share divided by diluted earnings per share.
[3] On a fully-taxable equivalent ("FTE") basis assuming a 21% tax rate. Net interest income is adjusted to reflect income from assets such as municipal loans and securities that are exempt from Federal income taxes. This is to recognize the income tax savings that facilitates a comparison between taxable and tax-exempt assets. The Company believes that it is a standard practice in the banking industry to present net interest margin and net interest income on a fully-taxable equivalent basis as these measures provide useful information to make peer comparisons.

During the second quarter 2019, net income was $6.1 million, or $0.60 per diluted share, compared to the second quarter 2018 net income of $6.0 million, or $0.67 per diluted share, representing an increase in net income of $0.1 million, or 1.9%. During the six months ended June 30, 2019, net income was $11.8 million, or $1.16 per diluted share, compared to the six months ended June 30, 2018 net income of $12.0 million, or $1.38 per diluted share, representing a decrease in net income of $0.2 million, or 1.8%. The comparability of diluted earnings per share between the second quarter 2019 and the second quarter 2018, as well as the six months ended June 30, 2019 and June 30, 2018, is impacted by the effect on average diluted shares outstanding resulting from the Company's issuance of 1,730,750 shares of common stock through an underwritten public offering in June 2018, partially offset by repurchase activity.

The $0.1 million increase in net income in the second quarter 2019 compared to the second quarter 2018 was due primarily to an increase of $1.3 million, or 58.7%, in noninterest income, an increase of $0.6 million, or 4.2%, in net interest income, and a decrease of $0.4 million, or 56.5%, in income tax expense, partially offset by a $1.5 million, or 15.0%, increase in noninterest expense and a $0.7 million, or 108.2%, increase in provision for loan losses.

The $0.2 million decrease in net income in the six months ended June 30, 2019 compared to the six months ended June 30, 2018 was due primarily to a $2.4 million, or 11.9%, increase in noninterest expense and a $1.2 million, or 76.3%, increase in provision for loan losses, partially offset by a $1.5 million, or 4.8%, increase in net interest income, a $1.1 million, or 23.5%, increase in noninterest income, and a $0.8 million, or 47.3%, decrease in income tax expense.

During the second quarter 2019, return on average assets ("ROAA") and return on average shareholders' equity ("ROAE") were 0.65% and 8.26%, respectively, compared to 0.82% and 10.11%, respectively, for the second quarter 2018. During the six months ended June 30, 2019, ROAA and ROAE were 0.64% and 8.09%, respectively, compared to 0.84% and 10.51%, respectively, for the six months ended June 30, 2018. The decrease in ROAA for both the three and six months ended June 30, 2019 was due primarily to the Company's growth in average assets. The decrease in ROAE during the three and six months ended June 30, 2019 compared to the three and six months ended June 30, 2018 was mainly the result of the Company's growth in average shareholders' equity. The increase in average shareholders' equity was due primarily to the equity offering completed in June 2018, which resulted in net proceeds to the Company of $54.3 million.

***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 except for net interest margin - FTE, as discussed below. Balances are based on the average of daily balances. Nonaccrual loans are included in average loan balances.

| *(dollars in thousands)* | Three Months Ended | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | June 30, 2019 | | | March 31, 2019 | | | June 30, 2018 | | |
| | 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 | $2,916,076 | $ 30,842 | 4.24% | $2,774,852 | $ 29,218 | 4.27% | $2,295,970 | $ 23,699 | 4.14% |
| Securities - taxable | 460,816 | 3,540 | 3.08% | 429,020 | 3,324 | 3.14% | 386,207 | 2,556 | 2.65% |
| Securities - non-taxable | 97,536 | 668 | 2.75% | 94,245 | 684 | 2.94% | 94,506 | 700 | 2.97% |
| Other earning assets | 248,996 | 1,794 | 2.89% | 246,732 | 1,773 | 2.91% | 79,346 | 461 | 2.33% |
| Total interest-earning assets | 3,723,424 | 36,844 | 3.97% | 3,544,849 | 34,999 | 4.00% | 2,856,029 | 27,416 | 3.85% |
| Allowance for loan losses | (19,275) | | | (18,229) | | | (15,782) | | |
| Noninterest-earning assets | 100,872 | | | 100,888 | | | 81,293 | | |
| Total assets | $3,805,021 | | | $3,627,508 | | | $2,921,540 | | |
| **Liabilities** | | | | | | | | | |
| Interest-bearing liabilities | | | | | | | | | |
| Interest-bearing demand deposits | $ 117,665 | $ 214 | 0.73% | $ 109,453 | $ 212 | 0.79% | $ 93,599 | $ 145 | 0.62% |
| Regular savings accounts | 37,507 | 106 | 1.13% | 38,853 | 108 | 1.13% | 55,273 | 158 | 1.15% |
| Money market accounts | 592,106 | 2,995 | 2.03% | 563,106 | 2,752 | 1.98% | 571,398 | 2,130 | 1.50% |
| Certificates and brokered deposits | 2,131,729 | 13,832 | 2.60% | 2,017,262 | 12,314 | 2.48% | 1,416,775 | 6,793 | 1.92% |
| Total interest-bearing deposits | 2,879,007 | 17,147 | 2.39% | 2,728,674 | 15,386 | 2.29% | 2,137,045 | 9,226 | 1.73% |
| Other borrowed funds | 548,932 | 3,592 | 2.62% | 540,705 | 3,369 | 2.53% | 492,068 | 2,729 | 2.22% |
| Total interest-bearing liabilities | 3,427,939 | 20,739 | 2.43% | 3,269,379 | 18,755 | 2.33% | 2,629,113 | 11,955 | 1.82% |
| Noninterest-bearing deposits | 42,566 | | | 42,551 | | | 44,524 | | |
| Other noninterest-bearing liabilities | 37,368 | | | 23,695 | | | 9,438 | | |
| Total liabilities | 3,507,873 | | | 3,335,625 | | | 2,683,075 | | |
| **Shareholders' equity** | 297,148 | | | 291,883 | | | 238,465 | | |
| Total liabilities and shareholders' equity | $3,805,021 | | | $3,627,508 | | | $2,921,540 | | |
| Net interest income | | $ 16,105 | | | $ 16,244 | | | $ 15,461 | |
| Interest rate spread [1] | | | 1.54% | | | 1.67% | | | 2.03% |
| Net interest margin [2] | | | 1.73% | | | 1.86% | | | 2.17% |
| Net interest margin - FTE [3] | | | 1.91% | | | 2.04% | | | 2.33% |

[1] Yield on total interest-earning assets minus cost of total interest-bearing liabilities.
[2] Net interest income divided by total average interest-earning assets (annualized).
[3] On an FTE basis assuming a 21% tax rate. Net interest income is adjusted to reflect income from assets such as municipal loans and securities that are exempt from Federal income taxes. This is to recognize the income tax savings that facilitates a comparison between taxable and tax-exempt assets. The Company believes that it is a standard practice in the banking industry to present net interest margin and net interest income on a fully-taxable equivalent basis as these measures provide useful information to make peer comparisons. Net interest margin - FTE represents a non-GAAP financial measure. See the "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of these measures to their most directly comparable GAAP measures.

| (dollars in thousands) | Six Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | June 30, 2019 | | | June 30, 2018 | | |
| | Average Balance | Interest /Dividends | Yield /Cost | Average Balance | Interest /Dividends | Yield /Cost |
| **Assets** | | | | | | |
| Interest-earning assets | | | | | | |
| Loans, including loans held-for-sale | $ 2,845,854 | $ 60,060 | 4.26% | $ 2,234,706 | $ 45,814 | 4.13% |
| Securities - taxable | 445,006 | 6,864 | 3.11% | 387,818 | 5,044 | 2.62% |
| Securities - non-taxable | 95,899 | 1,352 | 2.84% | 95,113 | 1,411 | 2.99% |
| Other earning assets | 247,871 | 3,567 | 2.90% | 91,946 | 1,126 | 2.47% |
| Total interest-earning assets | 3,634,630 | 71,843 | 3.99% | 2,809,583 | 53,395 | 3.83% |
| | | | | | | |
| Allowance for loan losses | (18,755) | | | (15,495) | | |
| Noninterest-earning assets | 100,880 | | | 78,847 | | |
| Total assets | $ 3,716,755 | | | $ 2,872,935 | | |
| | | | | | | |
| **Liabilities** | | | | | | |
| Interest-bearing liabilities | | | | | | |
| Interest-bearing demand deposits | $ 113,582 | $ 427 | 0.76% | $ 92,323 | $ 268 | 0.59% |
| Regular savings accounts | 38,177 | 213 | 1.13% | 55,611 | 316 | 1.15% |
| Money market accounts | 577,686 | 5,747 | 2.01% | 566,897 | 4,022 | 1.43% |
| Certificates and brokered deposits | 2,074,812 | 26,146 | 2.54% | 1,406,326 | 12,890 | 1.85% |
| Total interest-bearing deposits | 2,804,257 | 32,533 | 2.34% | 2,121,157 | 17,496 | 1.66% |
| Other borrowed funds | 544,841 | 6,961 | 2.58% | 467,157 | 5,023 | 2.17% |
| Total interest-bearing liabilities | 3,349,098 | 39,494 | 2.38% | 2,588,314 | 22,519 | 1.75% |
| Noninterest-bearing deposits | 42,558 | | | 44,252 | | |
| Other noninterest-bearing liabilities | 30,569 | | | 9,529 | | |
| Total liabilities | 3,422,225 | | | 2,642,095 | | |
| | | | | | | |
| **Shareholders' equity** | 294,530 | | | 230,840 | | |
| Total liabilities and shareholders' equity | $ 3,716,755 | | | $ 2,872,935 | | |
| | | | | | | |
| Net interest income | | $ 32,349 | | | $ 30,876 | |
| | | | | | | |
| Interest rate spread [1] | | | 1.61% | | | 2.08% |
| Net interest margin [2] | | | 1.79% | | | 2.22% |
| Net interest margin - FTE [3] | | | 1.97% | | | 2.37% |

[1] Yield on total interest-earning assets minus cost of total interest-bearing liabilities.
[2] Net interest income divided by total average interest-earning assets (annualized).
[3] On an FTE basis assuming a 21% tax rate. Net interest income is adjusted to reflect income from assets such as municipal loans and securities that are exempt from Federal income taxes. This is to recognize the income tax savings that facilitates a comparison between taxable and tax-exempt assets. The Company believes that it is a standard practice in the banking industry to present net interest margin and net interest income on a fully-taxable equivalent basis as these measures provide useful information to make peer comparisons. Net interest margin - FTE represents a non-GAAP financial measure. See the "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of these measures to their most directly comparable GAAP measures.

***Rate/Volume Analysis***

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

| *(dollars in thousands)* | Three Months Ended June 30, 2019 vs. March 31, 2019 Due to Changes in | | | Three Months Ended June 30, 2019 vs. June 30, 2018 Due to Changes in | | | Six Months Ended June 30, 2019 vs. June 30, 2018 Due to Changes in | | |
|---|---|---|---|---|---|---|---|---|---|
| | Volume | Rate | Net | Volume | Rate | Net | Volume | Rate | Net |
| Interest income | | | | | | | | | |
| Loans, including loans held-for-sale | $ 2,889 | $ (1,265) | $ 1,624 | $ 6,557 | $ 586 | $ 7,143 | $ 12,776 | $ 1,470 | $ 14,246 |
| Securities – taxable | 581 | (365) | 216 | 535 | 449 | 984 | 802 | 1,018 | 1,820 |
| Securities – non-taxable | 120 | (136) | (16) | 116 | (148) | (32) | 33 | (92) | (59) |
| Other earning assets | 68 | (47) | 21 | 1,198 | 135 | 1,333 | 2,214 | 227 | 2,441 |
| Total | 3,658 | (1,813) | 1,845 | 8,406 | 1,022 | 9,428 | 15,825 | 2,623 | 18,448 |
| Interest expense | | | | | | | | | |
| Interest-bearing deposits | 982 | 779 | 1,761 | 3,774 | 4,147 | 7,921 | 6,618 | 8,419 | 15,037 |
| Other borrowed funds | 67 | 156 | 223 | 337 | 526 | 863 | 907 | 1,031 | 1,938 |
| Total | 1,049 | 935 | 1,984 | 4,111 | 4,673 | 8,784 | 7,525 | 9,450 | 16,975 |
| Increase (decrease) in net interest income | $ 2,609 | $ (2,748) | $ (139) | $ 4,295 | $ (3,651) | $ 644 | $ 8,300 | $ (6,827) | $ 1,473 |

Net interest income for the second quarter 2019 was $16.1 million, an increase of $0.6 million, or 4.2%, compared to $15.5 million for the second quarter 2018. The increase in net interest income was the result of a $9.4 million, or 34.4%, increase in total interest income to $36.8 million for the second quarter 2019 from $27.4 million for the second quarter 2018. The increase in total interest income was partially offset by an $8.8 million, or 73.5%, increase in total interest expense to $20.7 million for the second quarter 2019 from $12.0 million for the second quarter 2018.

Net interest income for the six months ended June 30, 2019 was $32.3 million, an increase of $1.5 million, or 4.8%, compared to $30.9 million for the six months ended June 30, 2018. The increase in net interest income was the result of an $18.4 million, or 34.6%, increase in total interest income to $71.8 million for the six months ended June 30, 2019 from $53.4 million for the six months ended June 30, 2018. The increase in total interest income was partially offset by a $17.0 million, or 75.4%, increase in total interest expense to $39.5 million for the six months ended June 30, 2019 from $22.5 million for the six months ended June 30, 2018.

The increase in total interest income for the second quarter 2019 compared to the second quarter 2018 was due primarily to an increase in interest earned on loans resulting from an increase of $620.1 million, or 27.0%, in the average balance of loans, including loans held-for-sale and an increase of 10 basis points ("bps") in the yield on loans, including loans held-for-sale. The increase in average loan balances was driven by growth in the single tenant lease financing, public finance, healthcare finance and consumer loan portfolios. All loan portfolios experienced an increase in yields, which drove the overall increase in the yield earned on loans. The average balance of securities increased $77.6 million, or 16.2%, and the yield earned on the securities portfolio increased 30 bps for the second quarter 2019 compared to the second quarter 2018. The increase in yield is due primarily to recent purchases of securities producing higher yields as well as an increase in yield on variable rate securities from second quarter 2018 to the second quarter 2019. Additionally, the average balance of other earning assets increased $169.7 million, or 213.8%, and the yield earned on these assets increased 56 bps for the second quarter 2019 compared to the second quarter 2018. The increase in the average balance of other earning assets was due to the Company carrying higher cash balances for balance sheet liquidity purposes and the increase in the yield was due to higher short-term market interest rates, as compared to the second quarter 2018. During the second quarter 2019, however, both short- and long-term market interest rates declined. Should these market interest rates continue to decline, yields on interest-earning assets may be negatively impacted.

The increase in total interest income for the six months ended June 30, 2019 compared to the six months ended June 30, 2018 was due primarily to an increase in interest earned on loans resulting from an increase of $611.1 million, or 27.3%, in the average balance of loans, including loans held-for-sale, as well as an increase of 13 bps in the yield on loans, including loans held-for-sale. All loan portfolios experienced an increase in yields, which drove the overall increase in the yield earned on loans. In addition, the average balance of securities increased $58.0 million, or 12.0%, and the yield earned on the securities portfolio increased 36 bps for the six months ended June 30, 2019 compared to the six months ended June 30, 2018 due primarily to purchases of securities producing higher yields as well as an increase in yield on variable rate securities.

The increase in total interest expense for the second quarter 2019 compared to the second quarter 2018 was driven primarily by an increase of $742.0 million, or 34.7%, in the average balance of interest-bearing deposits for the second quarter 2019 compared to the second quarter 2018, as well as a 66 bp increase in the cost of funds related to interest-bearing deposits. The increase in the cost of interest-bearing deposits was due primarily to a $715.0 million, or 50.5%, increase in average certificates and brokered deposit balances and a 68 bp increase in the related costs of those deposits. An increase in market interest rates and an increase in deposit competition during the second half of 2018 contributed to increased costs associated with certificates of deposits in the second quarter 2019 compared to the second quarter 2018. While rates paid on new certificates of deposits production peaked in the first quarter 2019 and have declined since then, new production during the second quarter 2019 continued to exceed the costs of maturing certificates of deposits, which led to an increase in the overall cost associated with these deposits. Additionally, the increase in the cost of interest-bearing deposits was impacted by a 54 bp increase in the cost of funds related to money market deposits. The increase in the costs of funds related to money market accounts and certificates and brokered deposits was due primarily to increases in interest rates, as the Federal Reserve increased its benchmark Fed Funds target rate by 50 bps from June 30, 2018 through June 30, 2019. Additionally, during mid-to-late 2018, the Company initiated a liability hedging strategy using pay fixed/receive variable interest rate swaps to extend the duration of brokered variable rate money market deposits to increase asset sensitivity, reduce long-term interest rate risk and reduce volatility in total shareholders' equity due to the impact of changes in interest rates on other comprehensive income (loss). The resulting long-term funding strategy also contributed to the increase in cost of deposit funding.

Interest expense related to other borrowed funds also contributed to the increase in total interest expense due to a $56.9 million, or 11.6%, increase in the average balance of other borrowed funds for the second quarter 2019 compared to the second quarter 2018. The increase in the interest expense of other borrowed funds was due primarily to the cost of funds related to Federal Home Loan Bank ("FHLB") advances increasing 44 bps. Similar to the brokered deposit liability hedging strategy described above, the cost of FHLB advances increased as the Company also employed a similar hedging strategy using short-term FHLB advances to increase asset sensitivity and reduce long-term interest rate risk. In addition, the average balance of other borrowed funds increased due to the issuance of the 2029 Notes in June 2019, which currently bear a fixed interest rate of 6.0% per year. In future periods, interest expense will reflect a full quarter's impact of the 2029 Notes.

The increase in total interest expense was driven primarily by an increase of $683.1 million, or 32.2%, in the average balance of interest-bearing deposits for the six months ended June 30, 2019 compared to the six months ended June 30, 2018, as well as a 68 bp increase in the cost of funds related to interest-bearing deposits. The increase in the cost of interest-bearing deposits was due primarily to a $668.5 million, or 47.5%, increase in average certificates of deposits balances and an 69-bp increase in the related cost of those deposits. Interest expense related to other borrowed funds also contributed to the increase in total interest expense due to a $77.7 million, or 16.6%, increase in the average balance of other borrowed funds for the six months ended June 30, 2019 compared to the six months ended June 30, 2018 as well as an increase of 41 bps in the cost of other borrowed funds. The average balance of other borrowed funds increased due primarily to the average balance of Federal Home Loan Bank advances, which increased $76.7 million, or 17.3%, compared to the six months ended June 30, 2018, as the Company used FHLB advances to supplement deposit growth and to manage interest rate risk. In addition, the average balance of other borrowed funds increased due to the issuance of the 2029 Notes in June 2019, which increased interest expense compared to the six months ended June 30, 2018.

Net interest margin ("NIM") was 1.73% for the second quarter 2019 compared to 2.17% for the second quarter 2018. The decrease in NIM for the second quarter 2019 compared to the second quarter 2018 was driven primarily by an increase of 61 bps in the cost of interest-bearing liabilities, partially offset by an increase of 12 bps in the yield earned on interest-earning assets. On a fully-taxable equivalent basis, NIM was 1.91% for the second quarter 2019 compared to 2.33% for the second quarter 2018.

NIM was 1.79% for the six months ended June 30, 2019 compared to 2.22% for the six months ended June 30, 2018. The decline in NIM for the six months ended June 30, 2019 compared to the six months ended June 30, 2018 was driven primarily by an increase of 63 bps in the cost of interest-bearing liabilities, partially offset by a 16 bp increase in the yield earned on interest-earning assets. On a fully-taxable equivalent basis, NIM was 1.97% for the six months ended June 30, 2019, compared to a NIM of 2.37% for the six months ended June 30, 2018.

### *Noninterest Income*

The following table presents noninterest income for the last five completed fiscal quarters and the six months ended June 30, 2019 and 2018.

| *(dollars in thousands)* | Three Months Ended | | | | | Six Months Ended | |
|---|---|---|---|---|---|---|---|
| | June 30, 2019 | March 31, 2019 | December 31, 2018 | September 30, 2018 | June 30, 2018 | June 30, 2019 | June 30, 2018 |
| Service charges and fees | $ 225 | $ 236 | $ 237 | $ 236 | $ 231 | $ 461 | $ 461 |
| Mortgage banking activities | 2,664 | 1,617 | 1,141 | 1,402 | 1,597 | 4,281 | 3,175 |
| (Loss) gain on sale of loans | (66) | (104) | 89 | — | — | (170) | 414 |
| Loss on sale of securities | (458) | — | — | — | — | (458) | — |
| Other | 1,089 | 623 | 580 | 356 | 349 | 1,712 | 669 |
| Total noninterest income | $ 3,454 | $ 2,372 | $ 2,047 | $ 1,994 | $ 2,177 | $ 5,826 | $ 4,719 |

During the second quarter 2019, noninterest income was $3.5 million, representing an increase of $1.3 million, or 58.7%, compared to $2.2 million for the second quarter 2018. The increase was due primarily to an increase in revenue from mortgage banking activities and other noninterest income, which was partially offset by loss of sale of securities and loss on sale of loans. The increase in mortgage banking revenue was due mainly to an increase in mandatory pipeline volumes as the decline in mortgage interest rates during the quarter drove increased interest rate lock commitment activity. The increase in other noninterest income was due primarily to the Company recognizing a $0.5 million gain on the sale of its ownership of Visa Class B shares. The $0.5 million loss on sale of securities during the second quarter 2019 resulted from the Company selling lower-yielding mortgage backed and U.S. Government Agency securities with a book value of $30.6 million.

During the second quarter 2019, the Company recognized a $0.1 million loss on the sale of portfolio residential mortgage, public finance and single tenant lease financing loans with a book value of $148.4 million. Gains recognized on the sale of single tenant lease financing loans were offset by losses on the sales of portfolio residential mortgages, which included fixed rate and seasoned lower-yielding adjustable rate loans. Additionally, public finance loans were sold at approximately book value.

During the six months ended June 30, 2019, noninterest income was $5.8 million, an increase of $1.1 million, or 23.5%, from the six months ended June 30, 2018. The increase was due to a $1.1 million, or 34.8%, increase in revenue from mortgage banking activities and a $1.0 million, or 155.9%, increase in other noninterest income, partially offset by a $0.2 million loss on sale of loans, down from a $0.4 million gain on sale of loans in the prior-year period, and a $0.5 million decrease in loss on sale of securities. The increase in mortgage banking revenue was due to an increase in mandatory pipeline volumes as discussed above. The increase in other noninterest income was mainly the result of the gain on the sale of the Company’s Visa Class B shares and income associated with the Company’s temporary ownership of the land described under the heading “Other Assets” within this Management’s Discussion and Analysis. During the six months ended June 30, 2018, the Company completed two sales of single tenant lease financing loans, which resulted in the gain of $0.4 million. The loss on sale of securities was the result of the sales of securities discussed above. The Company did not sell any securities during the six months ended June 30, 2018.

***Noninterest Expense***

The following table presents noninterest expense for the last five completed fiscal quarters and the six months ended June 30, 2019 and 2018.

| *(dollars in thousands)* | Three Months Ended | | | | | Six Months Ended | |
|---|---|---|---|---|---|---|---|
| | **June 30, 2019** | **March 31, 2019** | **December 31, 2018** | **September 30, 2018** | **June 30, 2018** | **June 30, 2019** | **June 30, 2018** |
| Salaries and employee benefits | $ 6,642 | $ 6,321 | $ 5,738 | $ 5,704 | $ 5,827 | $ 12,963 | $ 11,732 |
| Marketing, advertising and promotion | 466 | 469 | 543 | 601 | 608 | 935 | 1,324 |
| Consulting and professional services | 835 | 814 | 862 | 709 | 633 | 1,649 | 1,484 |
| Data processing | 328 | 317 | 320 | 368 | 282 | 645 | 545 |
| Loan expenses | 292 | 314 | 204 | 241 | 260 | 606 | 497 |
| Premises and equipment | 1,497 | 1,500 | 1,307 | 1,244 | 1,231 | 2,997 | 2,445 |
| Deposit insurance premium | 747 | 555 | 570 | 441 | 480 | 1,302 | 945 |
| Write-down of other real estate owned | — | — | 2,423 | — | — | — | — |
| Other | 902 | 819 | 772 | 737 | 861 | 1,721 | 1,427 |
| Total noninterest expense | $ 11,709 | $ 11,109 | $ 12,739 | $ 10,045 | $ 10,182 | $ 22,818 | $ 20,399 |

Noninterest expense for the second quarter 2019 was $11.7 million, compared to $10.2 million for the second quarter 2018. The increase of $1.5 million, or 15.0%, compared to the second quarter 2018 was due primarily to increases of $0.8 million in salaries and employee benefits, $0.3 million in deposit insurance premium, $0.3 million in premises and equipment and $0.2 million in consulting and professional services, partially offset by a decrease of $0.1 million in marketing, advertising and promotion expenses. The increase in salaries and employee benefits resulted primarily from an increase related to employee compensation and higher incentive compensation associated with the increased mortgage production and personnel growth. Recent hires in the Company's commercial lending verticals and support areas were generally in higher skill positions, which contributed to the increase in salaries and benefits expense. The increase in deposit insurance premium was due primarily to the Company's year-over-year asset growth, as the FDIC uses annual asset growth as a component of their calculation to determine the cost of FDIC deposit insurance. The increase in premises and equipment was due primarily to higher software expenses. The increase in consulting and professional services expenses was due primarily to various expenses, none of which were deemed significant individually.

Noninterest expense for the six months ended June 30, 2019 was $22.8 million, compared to $20.4 million for the six months ended June 30, 2018. The increase of $2.4 million, or 11.9%, compared to the six months ended June 30, 2018 was due primarily to increases of $1.2 million in salaries and employee benefits, $0.6 million in premises and equipment, $0.4 million in deposit insurance premium and $0.2 million in consulting and professional services, partially offset by a $0.4 million decrease in marketing, advertising and promotion expenses. The increase in salaries and employee benefits was primarily the result of an increase related to employee compensation, higher incentive compensation associated with the increased mortgage production and personnel growth. Recent hires in the Company's commercial lending verticals and support areas were generally in higher skill positions, which contributed to the increase in salaries and benefits expense. The increase in premises and equipment was due primarily to higher software expenses. The increase in deposit insurance premium was due primarily to the Company's year-over-year asset growth. The increase in consulting and professional services expenses was due primarily to various expenses, none of which were deemed significant individually. The decrease in marketing, advertising and promotion was driven by digital marketing initiatives and higher mortgage lead generation costs that occurred in 2018.

Income tax provision was $0.3 million for the second quarter 2019, resulting in an effective tax rate of 5.3%, compared to $0.8 million and an effective tax rate of 11.5% for the second quarter 2018. Income tax provision was $0.9 million for the six months ended June 30, 2019, resulting in an effective tax rate of 6.8%, compared to $1.6 million, and an effective tax rate of 12.0% for the six months ended June 30, 2018. The decrease in the effective tax rate for both the three and six months ended June 30, 2019 compared to the three and six months ended June 30, 2018 was due primarily to an increase in the average balance of tax-exempt earning assets resulting from growth in the public finance loan portfolio.

### *Financial Condition*

The following table presents summary balance sheet data for the last five completed fiscal quarters.

*(dollars in thousands)*

| Balance Sheet Data: | June 30, 2019 | March 31, 2019 | December 31, 2018 | September 30, 2018 | June 30, 2018 |
|---|---|---|---|---|---|
| Total assets | $ 3,958,829 | $ 3,670,176 | $ 3,541,692 | $ 3,202,918 | $ 3,115,773 |
| Loans | 2,861,156 | 2,839,928 | 2,716,228 | 2,493,622 | 2,374,035 |
| Total securities | 558,160 | 551,604 | 504,095 | 489,197 | 480,025 |
| Loans held-for-sale | 30,642 | 13,706 | 18,328 | 23,493 | 20,672 |
| Noninterest-bearing deposits | 44,040 | 45,878 | 43,301 | 42,750 | 44,671 |
| Interest-bearing deposits | 2,962,223 | 2,765,230 | 2,628,050 | 2,403,814 | 2,349,613 |
| Total deposits | 3,006,263 | 2,811,108 | 2,671,351 | 2,446,564 | 2,394,284 |
| Advances from Federal Home Loan Bank | 514,906 | 495,146 | 525,153 | 425,160 | 390,167 |
| Total shareholders' equity | 296,120 | 294,013 | 288,735 | 287,740 | 282,087 |

Total assets increased $417.1 million, or 11.8%, to $4.0 billion at June 30, 2019 compared to $3.5 billion at December 31, 2018. Balance sheet expansion during the first six months of 2019 was funded primarily by deposit growth of $334.9 million, or 12.5%. This deposit growth contributed to an increase in cash liquidity as cash increased $159.6 million from December 31, 2018. Additionally, this funding was deployed to support loan growth of $144.9 million, or 5.3%.

### *Loan Portfolio Analysis*

The following table presents a summary of the Company's loan portfolio for the last five completed fiscal quarters.

| *(dollars in thousands)* | June 30, 2019 | | March 31, 2019 | | December 31, 2018 | | September 30, 2018 | | June 30, 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Commercial loans | | | | | | | | | | |
| Commercial and industrial | $ 110,143 | 3.8% | $ 112,146 | 3.9% | $ 114,382 | 4.2% | $ 105,489 | 4.2% | $ 107,394 | 4.5% |
| Owner-occupied commercial real estate | 83,979 | 2.9% | 87,482 | 3.1% | 87,962 | 3.2% | 93,568 | 3.8% | 86,068 | 3.6% |
| Investor commercial real estate | 21,179 | 0.7% | 11,188 | 0.4% | 5,391 | 0.2% | 5,595 | 0.2% | 6,185 | 0.3% |
| Construction | 47,849 | 1.7% | 42,319 | 1.5% | 39,916 | 1.5% | 38,228 | 1.5% | 46,769 | 2.0% |
| Single tenant lease financing | 1,001,196 | 35.1% | 975,841 | 34.3% | 919,440 | 33.8% | 883,372 | 35.4% | 863,981 | 36.4% |
| Public finance | 706,161 | 24.7% | 708,816 | 25.0% | 706,342 | 26.0% | 610,858 | 24.5% | 566,184 | 23.8% |
| Healthcare finance | 212,351 | 7.4% | 158,796 | 5.6% | 117,007 | 4.4% | 89,525 | 3.7% | 65,605 | 2.8% |
| Total commercial loans | 2,182,858 | 76.3% | 2,096,588 | 73.8% | 1,990,440 | 73.3% | 1,826,635 | 73.3% | 1,742,186 | 73.4% |
| Consumer loans | | | | | | | | | | |
| Residential mortgage | 318,678 | 11.1% | 404,869 | 14.3% | 399,898 | 14.7% | 362,574 | 14.5% | 337,143 | 14.2% |
| Home equity | 26,825 | 0.9% | 27,794 | 1.0% | 28,735 | 1.1% | 28,713 | 1.2% | 28,826 | 1.2% |
| Other consumer | 294,251 | 10.4% | 285,259 | 10.0% | 279,771 | 10.3% | 270,567 | 10.8% | 260,164 | 11.0% |
| Total consumer loans | 639,754 | 22.4% | 717,922 | 25.3% | 708,404 | 26.1% | 661,854 | 26.5% | 626,133 | 26.4% |
| Net deferred loan origination costs and premiums and discounts on purchased loans and other [(1)] | 38,544 | 1.3% | 25,418 | 0.9% | 17,384 | 0.6% | 5,133 | 0.2% | 5,716 | 0.2% |
| Total loans | 2,861,156 | 100.0% | 2,839,928 | 100.0% | 2,716,228 | 100.0% | 2,493,622 | 100.0% | 2,374,035 | 100.0% |
| Allowance for loan losses | (19,976) | | (18,841) | | (17,896) | | (16,704) | | (16,053) | |
| Net loans | $ 2,841,180 | | $ 2,821,087 | | $ 2,698,332 | | $ 2,476,918 | | $ 2,357,982 | |

(1) Includes carrying value adjustments of $22.2 million, $11.5 million, $5.0 million, ($5.2) million and ($2.5) million as of June 30, 2019, March 31, 2019, December 31, 2018, September 30, 2018 and June 30, 2018, respectively, related to interest rate swaps associated with public finance loans.

Total loans were $2.9 billion as of June 30, 2019, an increase of $144.9 million, or 5.3%, compared to December 31, 2018. The growth in commercial loan balances was driven largely by production in healthcare finance, which increased $95.3 million, or 81.5%, and single tenant lease financing, which increased $81.8 million, or 8.9%. During the six months ended June 30, 2019, the Company sold lower-yielding seasoned loans, which consisted of $100.5 million of portfolio residential mortgage loans, $48.6 million of public finance loans and $35.0 million of single tenant lease financing loans. The Company expects to pursue additional loan sales in the future to help manage balance sheet growth and capital, provide liquidity and improve NIM and profitability.

***Asset Quality***

Nonperforming loans are comprised of nonaccrual loans and loans 90 days past due and accruing. Nonperforming assets include nonperforming loans, OREO and other nonperforming assets, which consist of repossessed assets. The following table provides a summary of the Company's nonperforming assets for the last five completed fiscal quarters.

| *(dollars in thousands)* | June 30, 2019 | March 31, 2019 | December 31, 2018 | September 30, 2018 | June 30, 2018 |
|---|---|---|---|---|---|
| **Nonaccrual loans** | | | | | |
| Commercial loans: | | | | | |
| Commercial and industrial | $ 1,604 | $ 192 | $ 195 | $ — | $ — |
| Owner-occupied commercial real estate | 478 | — | 325 | — | — |
| Total commercial loans | 2,082 | 192 | 520 | — | — |
| Consumer loans: | | | | | |
| Residential mortgage | 3,134 | 3,163 | 175 | 179 | 161 |
| Home equity | — | — | 55 | — | 83 |
| Other consumer | 49 | 68 | 42 | 61 | 41 |
| Total consumer loans | 3,183 | 3,231 | 272 | 240 | 285 |
| Total nonaccrual loans | 5,265 | 3,423 | 792 | 240 | 285 |
| **Past Due 90 days and accruing loans** | | | | | |
| Consumer loans: | | | | | |
| Residential mortgage | 121 | — | 97 | — | — |
| Other consumer | — | 9 | — | 16 | — |
| Total consumer loans | 121 | 9 | 97 | 16 | — |
| Total past due 90 days and accruing loans | 121 | 9 | 97 | 16 | — |
| Total nonperforming loans | 5,386 | 3,432 | 889 | 256 | 285 |
| **Other real estate owned** | | | | | |
| Investor commercial real estate | 2,066 | 2,066 | 2,066 | 4,488 | 4,488 |
| Residential mortgage | 553 | 553 | 553 | 553 | 553 |
| Total other real estate owned | 2,619 | 2,619 | 2,619 | 5,041 | 5,041 |
| **Other nonperforming assets** | 36 | 20 | — | 7 | 9 |
| Total nonperforming assets | $ 8,041 | $ 6,071 | $ 3,508 | $ 5,304 | $ 5,335 |
| Total nonperforming loans to total loans | 0.19% | 0.12% | 0.03% | 0.01% | 0.01% |
| Total nonperforming assets to total assets | 0.20% | 0.17% | 0.10% | 0.17% | 0.17% |
| Allowance for loan losses to total loans | 0.70% | 0.66% | 0.66% | 0.67% | 0.68% |
| Allowance for loan losses to nonperforming loans | 370.9% | 549.0% | 2,013.1% | 6,525.0% | 5,632.6% |

***Troubled Debt Restructurings***

The following table provides a summary of troubled debt restructurings for the last five completed fiscal quarters.

| *(dollars in thousands)* | June 30, 2019 | March 31, 2019 | December 31, 2018 | September 30, 2018 | June 30, 2018 |
|---|---|---|---|---|---|
| Troubled debt restructurings – performing | $ 1,985 | $ 404 | $ 410 | $ 450 | $ 457 |
| Total troubled debt restructurings | $ 1,985 | $ 404 | $ 410 | $ 450 | $ 457 |

The increase in nonperforming loans of $4.5 million, or 505.8%, to $5.4 million as of June 30, 2019 compared to $0.9 million as of December 31, 2018 was due primarily to a seasoned residential mortgage loan with an unpaid principal balance of $3.1 million that was placed on nonaccrual status during the first quarter after becoming delinquent late in the fourth quarter 2018, as well as a commercial loan relationship with a total unpaid principal balance of $1.9 million that was placed on nonaccrual status late during the second quarter 2019. This increase was partially offset by one nonaccrual owner-occupied CRE relationship with a balance of $0.3 million that was paid in full during the first quarter 2019. Total nonperforming assets increased $4.5 million, or 129.2%, as of June 30, 2019 compared to December 31, 2018. The ratio of nonperforming loans to total loans increased to 0.19% as of June 30, 2019 compared to 0.03% as of December 31, 2018 and the ratio of nonperforming assets to total assets increased to 0.20% as of June 30, 2019 compared to 0.10% as of December 31, 2018, due primarily to the increases in the nonperforming seasoned residential mortgage loan and commercial loan relationship discussed above.

Total TDRs increased to $2.0 million as of June 30, 2019 compared to $0.4 million as of December 31, 2018. This is the result of four loans with a combined unpaid principal balance of $1.8 million that became TDRs during the second quarter 2019. The modifications consisted of interest-only payments for a period of time.

As of June 30, 2019 and December 31, 2018, the Company had one commercial property in OREO with a carrying value of $2.1 million. This property consists of two buildings which are residential units adjacent to a university campus. As of June 30, 2019 and December 31, 2018, the Company had residential mortgage OREO of $0.6 million.

***Allowance for Loan Losses***

The following table provides a rollforward of the allowance for loan losses for the last five completed fiscal quarters and the six months ended June 30, 2019 and 2018.

| *(dollars in thousands)* | Three Months Ended | | | | | Six Months Ended | |
|---|---|---|---|---|---|---|---|
| | June 30, 2019 | March 31, 2019 | December 31, 2018 | September 30, 2018 | June 30, 2018 | June 30, 2019 | June 30, 2018 |
| Balance, beginning of period | $ 18,841 | $ 17,896 | $ 16,704 | $ 16,053 | $ 15,560 | $ 17,896 | $ 14,970 |
| Provision charged to expense | 1,389 | 1,285 | 1,487 | 888 | 667 | 2,674 | 1,517 |
| Losses charged off | (337) | (429) | (381) | (336) | (254) | (766) | (560) |
| Recoveries | 83 | 89 | 86 | 99 | 80 | 172 | 126 |
| Balance, end of period | $ 19,976 | $ 18,841 | $ 17,896 | $ 16,704 | $ 16,053 | $ 19,976 | $ 16,053 |
| Net charge-offs to average loans | 0.05% | 0.05% | 0.05% | 0.04% | 0.03% | 0.04% | 0.04% |

The allowance for loan losses was $20.0 million as of June 30, 2019, compared to $17.9 million as of December 31, 2018. The increase of $2.1 million, or 11.6%, was due primarily to the growth in single tenant lease financing and healthcare finance loan balances, as well as a specific reserve of $0.6 million for one commercial loan that was placed on nonaccrual status during the second quarter 2019. During the second quarter 2019, the Company recorded net charge-offs of $0.3 million, compared to net charge-offs of $0.2 million for the second quarter 2018. The net charge-offs for both the second quarter 2019 and 2018 were driven primarily by other consumer loans.

During the six months ended June 30, 2019, the Company recorded net charge-offs of $0.6 million, compared to net charge-offs of $0.4 million during the six months ended June 30, 2018. The net charge-offs for the six months ended June 30, 2019 were primarily driven by charge-offs in other consumer loans and one charge-off in C&I loans. The net charge-offs for the six months ended June 30, 2018 were primarily driven by charge-offs in other consumer loans.

The allowance for loan losses as a percentage of total loans was 0.70% at June 30, 2019 and 0.66% at December 31, 2018. The allowance for loan losses as a percentage of nonperforming loans decreased to 370.9% as of June 30, 2019, compared to 2,013.1% as of December 31, 2018. The decrease was due primarily to the previously mentioned seasoned residential mortgage loan with an unpaid principal balance of $3.1 million and the commercial loan relationship with a total unpaid principal balance of $1.9 million that were placed on nonaccrual status in 2019.

***Investment Securities Portfolio***

The following tables present the amortized cost and approximate fair value of our investment portfolio by security type for the last five completed fiscal quarters.

*(dollars in thousands)*

| **Amortized Cost** | **June 30, 2019** | **March 31, 2019** | **December 31, 2018** | **September 30, 2018** | **June 30, 2018** |
|---|---|---|---|---|---|
| Securities available-for-sale | | | | | |
| U.S. Government-sponsored agencies | $ 89,088 | $ 102,749 | $ 109,631 | $ 115,176 | $ 122,162 |
| Municipal securities | 96,202 | 96,328 | 97,090 | 97,160 | 97,230 |
| Mortgage-backed securities | 297,745 | 288,120 | 251,492 | 237,703 | 225,756 |
| Asset-backed securities | 5,000 | 5,000 | 5,002 | 5,003 | 5,003 |
| Corporate securities | 38,644 | 38,650 | 36,678 | 36,684 | 29,627 |
| Total available-for-sale | 526,679 | 530,847 | 499,893 | 491,726 | 479,778 |
| Securities held-to-maturity | | | | | |
| Municipal securities | 10,147 | 10,150 | 10,157 | 10,159 | 10,161 |
| Corporate securities | 25,679 | 21,072 | 12,593 | 10,041 | 9,042 |
| Total held-to-maturity | 35,826 | 31,222 | 22,750 | 20,200 | 19,203 |
| Total securities | $ 562,505 | $ 562,069 | $ 522,643 | $ 511,926 | $ 498,981 |

*(dollars in thousands)*

| **Approximate Fair Value** | **June 30, 2019** | **March 31, 2019** | **December 31, 2018** | **September 30, 2018** | **June 30, 2018** |
|---|---|---|---|---|---|
| Securities available-for-sale | | | | | |
| U.S. Government-sponsored agencies | $ 87,737 | $ 100,872 | $ 107,585 | $ 112,760 | $ 120,232 |
| Municipal securities | 96,988 | 95,445 | 92,506 | 91,080 | 92,824 |
| Mortgage-backed securities | 295,988 | 282,771 | 242,912 | 225,692 | 215,383 |
| Asset-backed securities | 4,928 | 4,928 | 4,859 | 4,960 | 4,983 |
| Corporate securities | 36,693 | 36,366 | 33,483 | 34,505 | 27,400 |
| Total available-for-sale | 522,334 | 520,382 | 481,345 | 468,997 | 460,822 |
| Securities held-to-maturity | | | | | |
| Municipal securities | 10,296 | 10,062 | 9,801 | 9,519 | 9,675 |
| Corporate securities | 25,992 | 21,206 | 12,617 | 9,991 | 9,052 |
| Total held-to-maturity | 36,288 | 31,268 | 22,418 | 19,510 | 18,727 |
| Total securities | $ 558,622 | $ 551,650 | $ 503,763 | $ 488,507 | $ 479,549 |

The approximate fair value of available-for-sale investment securities increased $41.0 million, or 8.5%, to $522.3 million as of June 30, 2019, compared to $481.3 million as of December 31, 2018. The increase was due primarily to an increase of $53.1 million in mortgage-backed securities. The increase in mortgage-backed securities was driven by purchases as excess liquidity was deployed, as well as by market value increases due to interest rate changes, but was partially offset by the sale of $22.1 million of lower-yielding securities. The increase in approximate fair value of investment securities available-for-sale was partially offset by a decrease of $19.8 million in U.S. Government-sponsored agencies securities. The decrease in U.S. Government-sponsored agencies was due primarily to market value decreases resulting from interest rate changes, as well as the sale of $8.5 million of lower-yielding securities. As of June 30, 2019, the Company had securities with an amortized cost basis of $35.8 million designated as held-to-maturity compared to $22.8 million as of December 31, 2018. The increase was due to the Company using additional liquidity to purchase held-to-maturity corporate securities.

***Other Assets***

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 among SPF15, the City of Fishers, Indiana (the "City"), and its Redevelopment Commission (the "RDC"), among others, the City agreed to reimburse SPF15 for the purchase price and other specified land acquisition costs on or before December 31, 2018. On December 17, 2018, the City approved a Project Agreement that replaced the Land Acquisition Agreement. The Project Agreement extended the reimbursement deadline to October 30, 2019. The Project Agreement makes additional financial incentives available to the Company for constructing an office building and associated parking garage on the property. The City has agreed to transfer two additional parcels of land to SPF15 consisting of approximately 0.75 acres and SPF15 has agreed to transfer certain parcels of land to the Fishers Town Hall Building Corporation and third parties in connection with the development of the property. Site demolition has been completed, enabling further evaluation of the site for construction of a multi-use development to include the Company's future headquarters.

Other assets were $77.8 million at June 30, 2019 compared to $37.7 million at December 31, 2018. The increase of $40.1 million, or 106.2%, was due primarily to cash collateral pledged for interest rate swaps. The Company pledged $43.2 million and $7.0 million of cash collateral to counterparties as security for its obligations related to these interest rate swap transactions at June 30, 2019 and December 31, 2018, respectively. Collateral posted and received is dependent on the market valuation of the underlying hedges.

***Other Liabilities***

Other liabilities were $69.2 million at June 30, 2019 compared to $21.5 million at December 31, 2018. The increase of $47.8 million, or 222.5%, was due primarily to a $28.6 million decrease in the fair value of interest rate swaps as well as a $14.3 million accrual for securities that were purchased in June but did not settle until July.

***Deposits***

The following table presents the composition of the Company's deposit base for the last five completed fiscal quarters.

| *(dollars in thousands)* | June 30, 2019 | | March 31, 2019 | | December 31, 2018 | | September 30, 2018 | | June 30, 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Noninterest-bearing deposits | $ 44,040 | 1.5% | $ 45,878 | 1.6% | $ 43,301 | 1.6% | $ 42,750 | 1.7% | $ 44,671 | 1.9% |
| Interest-bearing demand deposits | 126,669 | 4.2% | 111,626 | 4.0% | 121,055 | 4.5% | 94,681 | 3.9% | 91,748 | 3.8% |
| Savings accounts | 31,445 | 1.0% | 41,958 | 1.5% | 38,489 | 1.4% | 47,033 | 1.9% | 48,897 | 2.1% |
| Money market accounts | 607,849 | 20.3% | 573,895 | 20.4% | 528,533 | 19.9% | 478,548 | 19.6% | 582,565 | 24.3% |
| Certificates of deposits | 1,629,886 | 54.2% | 1,464,543 | 52.1% | 1,292,883 | 48.4% | 1,252,690 | 51.2% | 1,231,438 | 51.4% |
| Brokered deposits | 566,374 | 18.8% | 573,208 | 20.4% | 647,090 | 24.2% | 530,862 | 21.7% | 394,965 | 16.5% |
| Total deposits | $ 3,006,263 | 100.0% | $ 2,811,108 | 100.0% | $ 2,671,351 | 100.0% | $ 2,446,564 | 100.0% | $ 2,394,284 | 100.0% |

Total deposits increased $334.9 million, or 12.5%, to $3.0 billion as of June 30, 2019, compared to approximately $2.7 billion as of December 31, 2018. This increase was due primarily to increases of $337.0 million, or 26.1%, in certificates of deposits and $79.3 million, or 15.0%, in money market accounts, partially offset by decreases of $80.7 million, or 12.5%, in brokered deposits and $7.0 million, or 18.3%, in savings accounts deposits. The increase in certificates of deposits was due to strong production during the first six months of 2019, which consequently reduced the need for brokered deposit funding.

***Recent Debt and Equity Offerings***

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. The 2029 Notes are trading on the Nasdaq Global Select Market under the symbol "INBKZ."

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.

***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. 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.

The following tables present actual and required capital ratios as of June 30, 2019 and December 31, 2018 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 June 30, 2019 and December 31, 2018 based on the Basel III Capital Rules and the minimum required capital levels as of January 1, 2019. 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 | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | Capital Amount | Ratio | Capital Amount | Ratio | Capital Amount | Ratio |
| As of June 30, 2019: | | | | | | |
| Common equity tier 1 capital to risk-weighted assets | | | | | | |
| Consolidated | $ 306,919 | 11.08% | $ 193,820 | 7.00% | N/A | N/A |
| Bank | 324,625 | 11.73% | 193,653 | 7.00% | $ 179,821 | 6.50% |
| Tier 1 capital to risk-weighted assets | | | | | | |
| Consolidated | 306,919 | 11.08% | 253,353 | 8.50% | N/A | N/A |
| Bank | 324,625 | 11.73% | 235,150 | 8.50% | 221,318 | 8.00% |
| Total capital to risk-weighted assets | | | | | | |
| Consolidated | 396,270 | 14.31% | 290,730 | 10.50% | N/A | N/A |
| Bank | 344,601 | 12.46% | 290,480 | 10.50% | 276,647 | 10.00% |
| Leverage ratio | | | | | | |
| Consolidated | 306,919 | 8.06% | 152,378 | 4.00% | N/A | N/A |
| Bank | 324,625 | 8.53% | 152,280 | 4.00% | 190,351 | 5.00% |

| (dollars in thousands) | Actual | | Minimum Capital Required - Basel III Phase-In Schedule | | Minimum Capital Required - Basel III Fully Phased in | | Minimum Required to be Considered Well Capitalized | |
|---|---|---|---|---|---|---|---|---|
| | Capital Amount | Ratio | Capital Amount | Ratio | Capital Amount | Ratio | Capital Amount | Ratio |
| As of December 31, 2018: | | | | | | | | |
| Common equity tier 1 capital to risk-weighted assets | | | | | | | | |
| Consolidated | $ 300,589 | 12.39% | $ 112,866 | 5.75% | $ 169,771 | 7.00% | N/A | N/A |
| Bank | 286,012 | 11.81% | 112,672 | 5.75% | 169,545 | 7.00% | $ 157,435 | 6.50% |
| Tier 1 capital to risk-weighted assets | | | | | | | | |
| Consolidated | 300,589 | 12.39% | 142,309 | 7.25% | 206,150 | 8.50% | N/A | N/A |
| Bank | 286,012 | 11.81% | 142,064 | 7.25% | 205,876 | 8.50% | 193,766 | 8.00% |
| Total capital to risk-weighted assets | | | | | | | | |
| Consolidated | 352,360 | 14.53% | 181,566 | 9.25% | 254,656 | 10.50% | N/A | N/A |
| Bank | 300,908 | 12.55% | 181,255 | 9.25% | 254,318 | 10.50% | 242,207 | 10.00% |
| Leverage ratio | | | | | | | | |
| Consolidated | 300,589 | 9.00% | 106,196 | 4.00% | 133,602 | 4.00% | N/A | N/A |
| Bank | 286,012 | 8.57% | 106,059 | 4.00% | 133,474 | 4.00% | 166,843 | 5.00% |

***Shareholders' Dividends***

The Company's Board of Directors declared a cash dividend of $0.06 per share of common stock payable July 15, 2019 to shareholders of record as of June 28, 2019. The Company expects to continue to pay cash dividends on a quarterly basis; however, the declaration and amount of any future cash dividends will be subject to the sole discretion of the Board of Directors and will depend upon many factors, including its results of operations, financial condition, capital requirements, regulatory and contractual restrictions (including with respect to the Company's outstanding subordinated debt), business strategy and other factors deemed relevant by the Board of Directors.

As of June 30, 2019, the Company had $72.0 million principal amount of subordinated debt outstanding pursuant to the 2025 Note, 2026 Notes and 2029 Notes. The agreements that govern our outstanding subordinated debt prohibit the Company from paying any dividends on its common stock or making any other distributions to shareholders at any time when there shall have occurred, and be continuing to occur, an event of default under the applicable agreement. If an event of default were to occur and the Company did not cure it, the Company would be prohibited from paying any dividends or making any other distributions to shareholders or from redeeming or repurchasing any common stock.

***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, including any cash dividends it may pay. The Company may explore 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.

On December 18, 2018, the Company's Board of Directors approved a stock repurchase program authorizing the repurchase of up to $10 million of the Company's outstanding common stock from time to time on the open market or in privately negotiated transactions. Various factors determine the amount and timing of our share repurchases, including our capital requirements, the number of shares we expect to issue in the future, economic and market conditions (including the trading price of our stock), and regulatory and legal considerations. See Part II, Item 2, of this report for information regarding recent repurchase activity and our remaining authority under the program.

***Liquidity***

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.

The Company maintains cash and investment securities that qualify as liquid assets to maintain adequate liquidity to ensure safe and sound operations and meet its financial commitments. At June 30, 2019, on a consolidated basis, the Company had $870.6 million in cash and cash equivalents and investment securities available-for-sale and $30.6 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 June 30, 2019, the Bank had the ability to borrow an additional $553.4 million from the FHLB, the Federal Reserve 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 June 30, 2019, the Company, on an unconsolidated basis, had $49.4 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 June 30, 2019, approved outstanding loan commitments, including unused lines of credit and standby letters of credit, amounted to $261.8 million. Certificates of deposits and brokered deposits scheduled to mature in one year or less at June 30, 2019 totaled $1.05 billion. Generally, the Company believes that a majority of maturing deposits will remain with the Bank.

Management is not aware of any other events or regulatory requirements that, if implemented, are likely to have a material effect on either the Company's or the Bank's liquidity.

***Reconciliation of Non-GAAP Financial Measures***

This Management's Discussion and Analysis contains financial information determined by methods other than in accordance with GAAP. Non-GAAP financial measures, specifically tangible common equity, tangible assets, average tangible common equity, tangible book value per common share, return on average tangible common equity and the tangible common equity to tangible assets ratio, total interest income - FTE, net interest income - FTE, net interest margin - FTE, 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, adjusted income before income taxes, adjusted income tax provision and adjusted effective income tax rate are used by the Company's management to measure the strength of its capital and analyze profitability, including its ability to generate earnings on tangible capital invested by its shareholders. The Company also believes that it is a standard practice in the banking industry to present total interest income, net interest income and net interest margin on a fully-taxable equivalent basis, as those measures provide useful information for peer comparisons. Although the Company believes these non-GAAP financial 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 financial 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 for the last five completed fiscal quarters and the six months ended June 30, 2019 and 2018.

| | Three Months Ended | | | | | Six Months Ended | |
|---|---|---|---|---|---|---|---|
| *(dollars in thousands, except share and per share data)* | June 30, 2019 | March 31, 2019 | December 31, 2018 | September 30, 2018 | June 30, 2018 | June 30, 2019 | June 30, 2018 |
| Total equity - GAAP | $ 296,120 | $ 294,013 | $ 288,735 | $ 287,740 | $ 282,087 | $ 296,120 | $ 282,087 |
| Adjustments: | | | | | | | |
| Goodwill | (4,687) | (4,687) | (4,687) | (4,687) | (4,687) | (4,687) | (4,687) |
| Tangible common equity | $ 291,433 | $ 289,326 | $ 284,048 | $ 283,053 | $ 277,400 | $ 291,433 | $ 277,400 |
| Total assets - GAAP | $ 3,958,829 | $ 3,670,176 | $ 3,541,692 | $ 3,202,918 | $ 3,115,773 | $ 3,958,829 | $ 3,115,773 |
| Adjustments: | | | | | | | |
| Goodwill | (4,687) | (4,687) | (4,687) | (4,687) | (4,687) | (4,687) | (4,687) |
| Tangible assets | $ 3,954,142 | $ 3,665,489 | $ 3,537,005 | $ 3,198,231 | $ 3,111,086 | $ 3,954,142 | $ 3,111,086 |
| Total common shares outstanding | 10,016,458 | 10,128,587 | 10,170,778 | 10,181,675 | 10,181,675 | 10,016,458 | 10,181,675 |
| Book value per common share | $ 29.56 | $ 29.03 | $ 28.39 | $ 28.26 | $ 27.71 | $ 29.56 | $ 27.71 |
| Effect of goodwill | (0.46) | (0.46) | (0.46) | (0.46) | (0.46) | (0.46) | (0.46) |
| Tangible book value per common share | $ 29.10 | $ 28.57 | $ 27.93 | $ 27.80 | $ 27.25 | $ 29.10 | $ 27.25 |
| Total shareholders' equity to assets | 7.48 % | 8.01 % | 8.15 % | 8.98 % | 9.05 % | 7.48 % | 9.05 % |
| Effect of goodwill | (0.11)% | (0.12)% | (0.12)% | (0.13)% | (0.13)% | (0.11)% | (0.13)% |
| Tangible common equity to tangible assets | 7.37 % | 7.89 % | 8.03 % | 8.85 % | 8.92 % | 7.37 % | 8.92 % |
| Total average equity - GAAP | $ 297,148 | $ 291,883 | $ 289,844 | $ 285,207 | $ 238,465 | $ 294,530 | $ 230,840 |
| Adjustments: | | | | | | | |
| Average goodwill | (4,687) | (4,687) | (4,687) | (4,687) | (4,687) | (4,687) | (4,687) |
| Average tangible common equity | $ 292,461 | $ 287,196 | $ 285,157 | $ 280,520 | $ 233,778 | $ 289,843 | $ 226,153 |
| Return on average shareholders' equity | 8.26 % | 7.91 % | 4.89 % | 8.75 % | 10.11 % | 8.09 % | 10.51 % |
| Effect of goodwill | 0.13 % | 0.13 % | 0.09 % | 0.14 % | 0.20 % | 0.13 % | 0.22 % |
| Return on average tangible common equity | 8.39 % | 8.04 % | 4.98 % | 8.89 % | 10.31 % | 8.22 % | 10.73 % |

| (dollars in thousands, except share and per share data) | Three Months Ended June 30, 2019 | March 31, 2019 | December 31, 2018 | September 30, 2018 | June 30, 2018 | Six Months Ended June 30, 2019 | June 30, 2018 |
|---|---|---|---|---|---|---|---|
| Total interest income | $ 36,844 | $ 34,999 | $ 31,849 | $ 30,223 | $ 27,416 | $ 71,843 | $ 53,395 |
| Adjustments: | | | | | | | |
| Fully-taxable equivalent adjustments [1] | 1,612 | 1,557 | 1,477 | 1,351 | 1,164 | 3,169 | 2,182 |
| Total interest income - FTE | $ 38,456 | $ 36,556 | $ 33,326 | $ 31,574 | $ 28,580 | $ 75,012 | $ 55,577 |
| | | | | | | | |
| Net interest income | $ 16,105 | $ 16,244 | $ 15,421 | $ 15,970 | $ 15,461 | $ 32,349 | $ 30,876 |
| Adjustments: | | | | | | | |
| Fully-taxable equivalent adjustments [1] | 1,612 | 1,557 | 1,477 | 1,351 | 1,164 | 3,169 | 2,182 |
| Net interest income - FTE | $ 17,717 | $ 17,801 | $ 16,898 | $ 17,321 | $ 16,625 | $ 35,518 | $ 33,058 |
| | | | | | | | |
| Net interest margin | 1.73% | 1.86% | 1.89% | 2.06% | 2.17% | 1.79% | 2.22% |
| Effect of fully-taxable equivalent adjustments [1] | 0.18% | 0.18% | 0.18% | 0.17% | 0.16% | 0.18% | 0.15% |
| Net interest margin - FTE | 1.91% | 2.04% | 2.07% | 2.23% | 2.33% | 1.97% | 2.37% |

[1] Assuming a 21% tax rate

| (dollars in thousands, except share and per share data) | Three Months Ended June 30, 2019 | March 31, 2019 | December 31, 2018 | September 30, 2018 | June 30, 2018 | Six Months Ended June 30, 2019 | June 30, 2018 |
|---|---|---|---|---|---|---|---|
| Income before income taxes - GAAP | 6,461 | 6,222 | $ 3,242 | $ 7,031 | $ 6,789 | $ 12,683 | $ 13,679 |
| Adjustments: | | | | | | | |
| Write-down of other real estate owned | — | — | 2,423 | — | — | — | — |
| Adjusted income before income taxes | $ 6,461 | $ 6,222 | $ 5,665 | $ 7,031 | $ 6,789 | $ 12,683 | $ 13,679 |
| | | | | | | | |
| Income tax provision (benefit) - GAAP | 340 | 526 | $ (334) | $ 743 | $ 781 | $ 866 | $ 1,643 |
| Adjustments: | | | | | | | |
| Write-down of other real estate owned | — | — | 509 | — | — | — | — |
| Adjusted income tax provision | 340 | 526 | 175 | 743 | 781 | 866 | 1,643 |
| | | | | | | | |
| Net income - GAAP | 6,121 | 5,696 | $ 3,576 | $ 6,288 | 6,008 | 11,817 | 12,036 |
| Adjustments: | | | | | | | |
| Write-down of other real estate owned | — | — | 1,914 | — | — | — | — |
| Adjusted net income | 6,121 | 5,696 | 5,490 | 6,288 | 6,008 | 11,817 | 12,036 |
| | | | | | | | |
| Diluted average common shares outstanding | 10,148,285 | 10,230,531 | 10,275,040 | 10,273,766 | 8,919,460 | 10,186,833 | 8,731,331 |
| | | | | | | | |
| Diluted earnings per share - GAAP | 0.60 | 0.56 | $ 0.35 | $ 0.61 | $ 0.67 | $ 1.16 | $ 1.38 |
| Adjustments: | | | | | | | |
| Effect of write-down of other real estate owned | — | — | 0.18 | — | — | — | — |
| Adjusted diluted earnings per share | 0.60 | 0.56 | 0.53 | 0.61 | 0.67 | 1.16 | 1.38 |
| | | | | | | | |
| Return on average assets | 0.65% | 0.64% | 0.43 % | 0.79% | 0.82% | 0.64% | 0.84% |
| Effect of write-down of other real estate owned | 0.00% | 0.00% | 0.23% | 0.00% | 0.00% | 0.00% | 0.00% |
| Adjusted return on average assets | 0.65% | 0.64% | 0.66 % | 0.79% | 0.82% | 0.64% | 0.84% |
| | | | | | | | |
| Return on average shareholders' equity | 8.26% | 7.91% | 4.89 % | 8.75% | 10.11% | 8.09% | 10.51% |
| Effect of write-down of other real estate owned | 0.00% | 0.00% | 2.62% | 0.00% | 0.00% | 0.00% | 0.00% |
| Adjusted return on average shareholders' equity | 8.26% | 7.91% | 7.51 % | 8.75% | 10.11% | 8.09% | 10.51% |
| | | | | | | | |
| Return on average tangible common equity | 8.39% | 8.04% | 4.98 % | 8.89% | 10.31% | 8.22% | 10.73% |
| Effect of write-down of other real estate owned | 0.00% | 0.00% | 2.66% | 0.00% | 0.00% | 0.00% | 0.00% |
| Adjusted return on average tangible common equity | 8.39% | 8.04% | 7.64 % | 8.89% | 10.31% | 8.22% | 10.73% |
| | | | | | | | |
| Effective income tax rate | 5.3% | 8.5% | (10.3)% | 10.6% | 11.5% | 6.8% | 12.0% |
| Effect of write-down of other real estate owned | 0.0% | 0.0% | 13.4% | 0.0% | 0.0% | 0.0% | 0.0% |
| Adjusted effective income tax rate | 5.3% | 8.5% | 3.1 % | 10.6% | 11.5% | 6.8% | 12.0% |

***Critical Accounting Policies and Estimates***

There have been no material changes in the Company's critical accounting policies or estimates from those disclosed in its Annual Report on Form 10-K for the year ended December 31, 2018.

***Recent Accounting Pronouncements***

Refer to Note 13 to the condensed 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. At June 30, 2019 and December 31, 2018, the Company had interest rate swaps with notional amounts of $733.7 million and $734.1 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 June 30, 2019 and December 31, 2018, the Company had commitments to sell residential real estate loans of $101.0 million and $32.5 million, respectively. These contracts mature in less than one year. Refer to Note 12 to the condensed consolidated financial statements for additional information about derivative financial instruments.

**ITEM 3. 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 June 30, 2019, assuming parallel shifts in interest rates:

| | % Change from Base Case for Parallel Changes in Rates | | | |
|---|---|---|---|---|
| | -100 Basis Points | -50 Basis Points | -25 Basis Points | +100 Basis Points |
| NII - Year 1 | (5.07)% | (2.38)% | (1.17)% | 5.11 % |
| NII - Year 2 | 7.85 % | 9.61 % | 10.14 % | 5.66 % |
| EVE | (1.38)% | 0.19 % | 0.38 % | (6.87)% |

The Company's objective is to manage the balance sheet with a bias toward 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 NII when interest 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. A "liability sensitive" position refers to when the characteristics of the balance sheet are expected to generate higher NII when interest rates decrease as rates paid on interest-bearing liabilities would reprice downward more quickly or in greater quantities than rates earned on interest-earning assets.

## ITEM 4. CONTROLS AND PROCEDURES

***Evaluation of Disclosure Controls and Procedures***

The Company maintains disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in reports that it files or submits under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized, and reported within the time period specified in the SEC's rules and forms. These controls and procedures are also designed to provide reasonable assurance that such information is accumulated and communicated to management, including the principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosures. 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 principal executive and principal financial officers, to assess the effectiveness of the design and operation of its disclosure controls and procedures under the Exchange Act. Based on that evaluation, the principal executive and principal financial officers concluded that the disclosure controls and procedures were effective at a reasonable assurance level as of June 30, 2019.

***Changes in Internal Control Over Financial Reporting***

There has been no change in the Company's internal control over financial reporting during the three months ended June 30, 2019 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

## PART II

### ITEM 1. 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 1A. RISK FACTORS

There have been no material changes to the risk factors previously disclosed in Part I, Item 1A, of the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

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

***Issuer Purchases of Equity Securities***

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 its outstanding common stock from time to time on the open market or in privately negotiated transactions. The stock repurchase program is scheduled to expire on December 31, 2019. Under this program, the Company has repurchased 208,312 shares of common stock through June 30, 2019, at an average price of $20.87, for a total investment of $4.3 million. The following table presents information with respect to purchases of the Company's common stock made during the second quarter of fiscal 2019 by or on behalf of the Company or any "affiliated purchaser," as defined in Rule 10b-18(a)(3).

| *(dollars in thousands, except per share data)* | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Programs | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Programs |
|---|---|---|---|---|
| April 1, 2019 - April 30, 2019 | 41,630 | $ 21.14 | 41,630 | $ 7,158 |
| May 1, 2019 - May 31, 2019 | 37,390 | 22.00 | 37,390 | 6,335 |
| June 1, 2019 - June 30, 2019 | 33,109 | 20.65 | 33,109 | 5,652 |
| Total | 112,129 | 20.93 | 112,129 | |

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

### ITEM 5. OTHER INFORMATION

None.

## ITEM 6. EXHIBITS

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

| Exhibit No. | Description | Method of Filing |
|---|---|---|
| 3.1 | Articles of Incorporation of First Internet Bancorp (incorporated by reference to Exhibit 3.1 to registration statement on Form 10 filed November 30, 2012) | Incorporated by Reference |
| 3.2 | Amended and Restated Bylaws of First Internet Bancorp as amended March 18, 2013 (incorporated by reference to Exhibit 3.2 to annual report on Form 10-K for the year ended December 31, 2012) | Incorporated by Reference |
| 4.1 | 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 September 30, 2016) | Incorporated by Reference |
| 4.2 | 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) | Incorporated by Reference |
| 4.3 | Form of Global Note representing Fixed-floating Rate Subordinated Notes due 2029 (incorporated by reference to Exhibit 4.2 to current report on Form 8-K filed June 12, 2019) | Incorporated by Reference |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer | Filed Electronically |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer | Filed Electronically |
| 32.1 | Section 1350 Certifications | Filed Electronically |
| 101.INS | XBRL Instance Document | Filed Electronically |
| 101.SCH | XBRL Taxonomy Extension Schema | Filed Electronically |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase | Filed Electronically |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase | Filed Electronically |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase | Filed Electronically |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase | Filed Electronically |

**SIGNATURES**

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

| | | |
|---|---|---|
| | | FIRST INTERNET BANCORP |
| Date: August 7, 2019 | By | /s/ David B. Becker |
| | | David B. Becker,<br>*Chairman, President and Chief Executive Officer*<br>*(on behalf of Registrant)* |
| Date: August 7, 2019 | By | /s/ Kenneth J. Lovik |
| | | Kenneth J. Lovik,<br>*Executive Vice President and Chief Financial Officer (principal financial officer)* |



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# Section 2: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

**Certification by the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, David B. Becker, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of First Internet Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2019

/s/ David B. Becker

David B. Becker, Chief Executive Officer

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# Section 3: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

**Certification by the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Kenneth J. Lovik, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of First Internet Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2019

/s/ Kenneth J. Lovik

Kenneth J. Lovik, Chief Financial Officer

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# Section 4: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of First Internet Bancorp (the “Company") on Form 10-Q for the period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David B. Becker

David B. Becker
Chief Executive Officer
August 7, 2019

/s/ Kenneth J. Lovik

Kenneth J. Lovik
Chief Financial Officer
August 7, 2019

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