First Internet Bancorp
Form 10-K
March 31, 2014

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

FORM 10-K

(Mark One)

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** For the Fiscal Year Ended December 31, 2013 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	**20-348991**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
8888 Keystone Crossing, Suite 1700 **Indianapolis, Indiana**	**46240**
(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: Common Stock, without par value

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

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

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

The aggregate market value of common stock held by non-affiliates of the registrant as of June 28, 2013, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $53.39 million, based on the closing sale price for the registrant's common stock on that date. For purposes of determining this number, all officers and directors of the registrant are considered to be affiliates of the registrant. This number is provided only for the purpose of this report and does not represent an admission by either the registrant or any such person as to the status of such person.

As of March 28, 2014, the registrant had 4,449,619 shares of common stock issued and outstanding.

Documents Incorporated By Reference

Portions of our Proxy Statement for the annual meeting of shareholders to be held on May 19, 2014 are incorporated by reference in Part III.

Forward-Looking Statements

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

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

PART I

Item 1. Business

General

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

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

As of December 31, 2013, we had total assets of $802.34 million, total liabilities of $711.43 million, and shareholders' equity of $90.91 million.

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

Business Strategies

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

Performance

Growth. Total assets have increased 59.00% from $504.62 million at December 31, 2009 to $802.34 million at December 31, 2013. This increase was driven by strong organic growth. During the same time period, total net loans increased from $305.44 million to $495.73 million and deposits increased from $411.63 million to $673.10 million, increases of 62.30% and 63.52%, respectively. Our sustained growth profile is the result of our flexible and highly scalable Internet banking strategy that allows us to target a broad reach of customers across 50 states. Additionally, key strategic commercial banking hires have enabled us to further expand our product offerings on both a local and national basis. At December 31, 2013, CRE and C&I loans comprised 39.82% of the loan portfolio, excluding residential mortgage loans held for sale, compared to 7.73% at December 31, 2009.

Earnings Trend. We have generated positive net income for the last four years. Net income amounted to $4.59 million for the year ended December 31, 2013.

Asset Quality. At December 31, 2013, our nonperforming assets to total assets was 0.90% and our allowance for loan losses to total loans receivable was 1.09%. We have maintained a high quality loan portfolio due to our emphasis on a strong credit culture, conservative underwriting standards, and a diverse national and local customer base.

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Strategic Focus

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

National Focus on Deposit and Consumer Banking Growth. Our first product offerings were basic deposit accounts, certificates of deposit, electronic bill pay and credit cards. Within 90 days of opening, we had accounts with consumers in all 50 states. Over the years, we added secured consumer loans, lines of credit, home equity loans and single-family mortgages. Our footprint for deposit gathering and these consumer lending activities is the entire nation. With the use of our Internet-based technology platform, we do not face geographic boundaries that traditional banks must overcome for customer acquisition. Armed with smart phones and tablet computers, our customers can access our online banking system, bill pay, and remote deposit capture 24 hours a day, seven days a week, on a real time basis. In addition, we have seven dedicated banking specialists who can service customer needs via telephone, email or online chat. We intend to continue to expand our deposit base by leveraging technology and marketing. The average size of our customers' checking account at December 31, 2013 was $13,000, nearly four times the national average.

Commercial Banking Growth. Over the past three years, we have diversified our operations by adding commercial banking to complement our consumer platform. We offer CRE loans, credit tenant leases, C&I loans, including asset based lending and corporate credit cards to commercial businesses. Our commercial lending teams consist of seasoned commercial bankers, most of whom have had extensive careers with larger money center, super-regional or regional banks. These lenders have developed long-term, core relationships with a consistent base of commercial borrowers. During 2013, we introduced a treasury management product to capture the deposit side of these commercial relationships. We are continuing to develop new products and services for this market that will produce additional loan interest income as well as non-interest income. We also intend to grow and expand our commercial banking platform by hiring additional seasoned loan officers and relationship managers. In October 2013, we added asset based lending to our commercial offerings and in January 2014, we opened a loan production office in our existing Tempe, Arizona location.

Experience. Our management team and our Board of Directors are integral to our success. Our management team and Board of Directors are led by David B. Becker, the founder of First Internet Bank of Indiana. Mr. Becker is a seasoned business executive and entrepreneur with over three decades of management experience in the financial services and financial technology space, and has served as our Chief Executive Officer since 2005. Mr. Becker has been the recipient of numerous business awards, including Ernst & Young Entrepreneur of the Year in 2002, and is an inductee to the Central Indiana Business Hall of Fame. Our Chief Financial Officer, Kay E. Whitaker, brings over 20 years of experience in the financial services industry, most recently as the CFO of Central Indiana Community Foundation ("CICF") from 2007 to 2012. At CICF, Ms. Whitaker provided financial oversight for 800 philanthropic funds and 165 investment accounts across multiple portfolios, and was named 2012 CFO of the Year in the not-for-profit sector by the Indianapolis Business Journal. Ms. Whitaker also brings over 15 years of accounting experience with PriceWaterhouseCoopers focused on financial institutions. The senior management team is complemented by a dedicated Board of Directors with a wide range of experience from careers in financial services, legal, regulatory, and industrial services.

The leaders of our lending teams and members of their staff are highly seasoned, career bankers who bring deep banking knowledge and relationships from regional, super-regional or money center banks. Our management team has a wealth of banking knowledge from a wide variety of backgrounds which gives us significant market insight and allows us to leverage their comprehensive, long-term customer relationships. We organize our lending teams as follows: Commercial and Industrial, Commercial Real Estate, Consumer, and Mortgage Banking. The C&I team has twelve members and the CRE team has eight members. The Consumer team has four lenders and the Residential Mortgage Banking team has 26 loan producers and 34 support staff. We will continue to search for seasoned bankers who can add new lending verticals and sources of noninterest income.

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

Maintain Asset Quality, Diversified Loan Portfolio and Effective Underwriting. We place an emphasis on our strong credit culture and strict underwriting standards of diverse loan products to maintain our excellent credit quality. Our loan portfolio is diversified with a low level of construction loans. At December 31, 2013, the loan portfolio consisted of 28.70% CRE, 11.12% C&I, 21.68% consumer, and 38.50% residential real estate loans. Our Chief Credit Officer has approximately twenty-five years of experience with a major regional bank and joined us in August 2012. Our Compliance Officer has approximately thirty years of banking and compliance experience.

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

Scalable Platform. We believe we have built a scalable banking infrastructure based upon technology rather than a branch network, and that our Internet banking processes are capable of supporting continued growth while improving operational efficiencies. We believe our support team has the ability to meet our consumer loan and deposit base growth without significant additional hires.

Expand Market Share Through Disciplined Acquisition Strategy. We may expand on an opportunistic basis, primarily as a means of securing additional asset generation.

Lending Activities

Residential Mortgage Lending. We offer first-lien residential mortgage loans in 50 states and second-lien (home equity) loans as well as home equity lines of credit in 47 states. We offer loans for homebuyers (purchase money) as well as existing homeowners who wish to refinance their current loans. The low interest rate environment in recent years has made refinancing an attractive opportunity for homeowners. Approximately 70% of the loans we originated in 2013 were refinances. We have increased the proportion of purchase money loans leveraging our existing technology platform, as this will provide a reliable stream of business in a rising rate environment.

We attract credit-worthy loan applicants through disciplined online lead generation efforts and through repeat business from past customers. We track our acquisition costs vigilantly and discontinue any lead sources that are not contributing to a positive margin. We use customer relationship management tools to track prospects and identify the most likely sales opportunities on which to focus our efforts. For 2013, the weighted average credit score of our mortgage customer was 772 at the time of origination.

We currently sell the vast majority of our conforming conventional (fixed rate) loans to the secondary market and thereby avoid the potential interest rate risk of these loans. We retain variable rate non-conforming (jumbo) loans in our portfolio. As rates rise, we will have the opportunity to retain conforming conventional loans on an opportunistic basis.

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

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

Commercial Real Estate (CRE) Lending. We have a team of eight full-time employees in CRE lending, most with large regional bank experience. We expect that the majority of our CRE loans will be in office, retail, industrial, single family residential development and construction, and multi-family loans in the Midwest, with credit tenant lease financing on a nationwide basis. While many banks in Central Indiana must address legacy problem CRE loans in their portfolios, we are in a position to meet pent-up demand from qualified borrowers. At December 31, 2013, $142.43 million, or 28.70% of our loan portfolio consisted of CRE loans.

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

Commercial and Industrial (C&I) Lending. Historically, we only originated C&I loans occasionally as a result of referrals we received from customers and third parties. We began focusing on C&I loan originations in the Central Indiana area in late 2011. In 2013, we expanded our commercial lending capabilities by beginning a new division that offers asset based lending services. Operating under the name First Internet Bank Business Capital, the new division provides working capital to small-to-medium sized companies. The asset based lending group provides revolving lines of credit backed by accounts receivable and inventory as well as term loans backed by real estate and equipment.

We currently have a C&I team of twelve full-time employees, most with large regional bank experience and strong local relationships. The recent increase in our C&I lending activity is intended to further diversify our lending portfolio and increase opportunities for new business. In addition to commercial loan originations, C&I lending activity can result in new deposits, including fee income from treasury management products, and opportunities to cross-sell other products such as residential mortgage loans and consumer home equity and installment loans. New C&I customers (and their advisors) also serve as referral sources for additional new business opportunities. In order to attract deposits from C&I borrowers (which diversifies our deposit mix and reduces our cost of funds) and to enhance our non-interest income, we began offering expanded online account access and treasury management service capabilities during 2013. In 2013, commercial deposits grew to $16.17 million.

Loan Portfolio Analysis

(dollars in thousands)	December 31, 2013			2012			2011			2010			2009
Real estate loans:													
Residential	$ 191,007	38.50	%	$ 128,815	36.34	%	$ 143,452	43.24	%	$ 106,729	35.30	%	$ 80,781
Commercial	142,429	28.70	%	84,918	23.95	%	43,507	13.11	%	19,563	6.47	%	20,212
Total real estate loans	333,436	67.20	%	213,733	60.29	%	186,959	56.35	%	126,292	41.77	%	100,993
Commercial loans	55,168	11.12	%	14,271	4.03	%	2,063	0.62	%	4,919	1.63	%	3,779
Consumer loans	107,562	21.68	%	126,486	35.68	%	142,783	43.03	%	171,122	56.60	%	205,702
	496,166	100.00	%	354,490	100.00	%	331,805	100.00	%	302,333	100.00	%	310,474
Less:													
Net deferred loan fees, premiums and discounts	4,987			3,671			3,421			4,057			5,062
Allowance for losses	(5,426)			(5,833)			(5,656)			(6,845)			(10,097)
Total net loans	$ 495,727			$ 352,328			$ 329,570			$ 299,545			$ 305,439

Loan Maturities

The following table shows the contractual maturity distribution intervals of the outstanding loans in our portfolio as of December 31, 2013.

(dollars in thousands)	Real Estate Residential	Commercial	Commercial	Consumer	Total
Amounts due in:					
One year or less	$ 8,011	$ 12,086	$ 8,620	$ 2,017	$ 30,734
More than one to two years	7,904	1,576	939	1,392	$ 11,811
More than two to three years	2,158	11,952	6,163	4,659	$ 24,932
More than three to five years	661	37,011	11,746	15,070	$ 64,488
More than five to ten years	1,088	73,686	27,700	69,402	$ 171,876
More than ten to fifteen years	4,675	5,397		15,022	$ 25,094

More than fifteen years	166,510	721			$ 167,231
Total	$ 191,007	$ 142,429	$ 55,168	$ 107,562	$ 496,166

Fixed vs. Adjustable Rate Loans

The following table shows the distribution of the outstanding loans in our portfolio between those with variable or floating interest rates and those with fixed or predetermined interest rates as of December 31, 2013.

(dollars in thousands)	Due after December 31, 2013		
	Fixed	Adjustable	Total
Real estate loans:			
Residential	$ 16,070	$ 174,937	$ 191,007
Commercial	101,454	40,975	$ 142,429
Total real estate loans	117,524	215,912	$ 333,436
Commercial loans	43,499	11,669	$ 55,168
Consumer loans	106,431	1,131	$ 107,562
Total loans	$ 267,454	$ 228,712	$ 496,166

Loan Activity

The following table shows loan activity for the years ended December 31, 2013 and 2012.

(dollars in thousands)	Year ended December 31,	
	2013	2012
Total loans at beginning of period:	$ 354,490	$ 331,805
Loans originated:		
Real estate loans:		
Residential	22,235	4,775
Commercial	62,242	35,861
Commercial loans	21,236	7,467
Consumer loans	16,741	24,572
Total loans originated	122,454	72,675
Loans Purchased[1]:		
Real estate loans:		
Residential	59,254	
Commercial		8,877
Commercial loans	21,892	
Consumer loans		
Total loans purchased	81,146	8,877
Add (Deduct):		
Principal repayments	(60,149)	(52,055)
Net other	(1,775)	(6,812)
Net loan activity	141,676	22,685
Total loans at end of period	$ 496,166	$ 354,490

[1] Excludes premiums paid or discounts received.

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Nonperforming Assets

Loans are reviewed at least quarterly and any loan whose collectability is doubtful is placed on nonaccrual status. Loans are placed on nonaccrual status when either principal or interest is 90 days or more past due, unless, in the judgment of management, the loan is well collateralized and in the process of collection. Interest accrued and unpaid at the time a loan is placed on nonaccrual status is charged against interest income. Subsequent payments are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate collectability of the loan. Restructured loans include troubled debt restructurings that involved forgiving a portion of interest or principal or making loans at a rate materially less than the market rate to borrowers whose financial condition had deteriorated. Foreclosed and repossessed assets include assets acquired in the settlement of loans. The following table sets forth the amounts and categories of nonperforming assets in our portfolio as of the dates indicated.

(dollars in thousands)	December 31, 2013	2012	2011	2010	2009
Nonaccrual loans[1]:					
Real estate loans:					
Residential	$ 630	$ 1,389	$ 876	$ 2,841	$ 3,388
Commercial	1,054	2,362	7,523	3,593	5,186
Total real estate loans	1,684	3,751	8,399	6,434	8,574
Commercial loans				1,539	
Consumer loans	150	155	224	683	1,726
Total nonaccrual loans	1,834	3,906	8,623	8,656	10,300
Accruing loans past due 90 days or more:					
Real estate loans:					
Residential		450	75		47
Commercial				900	
Total real estate loans		450	75	900	47
Commercial loans					
Consumer loans	18	21	56	30	72
Total accruing loans past due 90 days or more	18	471	131	930	119
Total nonperforming loans	1,852	4,377	8,754	9,586	10,419
Real estate owned:					
Residential	368	265	448	591	126
Commercial	4,013	3,401	1,064	1,616	
Total real estate owned	4,381	3,666	1,512	2,207	126
Other nonperforming assets	956	2,253	3,113	5,118	2,164
Total nonperforming assets	7,189	10,296	13,379	16,911	12,709
Troubled debt restructurings not included in nonaccruals	1,243	1,412	1,086	360	
Troubled debt restructurings and total nonperforming assets	$ 8,432	$ 11,708	$ 14,465	$ 17,271	$ 12,709

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(1) Includes nonperforming troubled debt restructurings.

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(dollars in thousands)	December 31, 2013	2012	2011	2010	2009
Troubled debt restructurings:					
Real estate loans:					
Residential Accruing	$ 1,054	$ 1,092	$ 817	$ 360	$
Residential Non-accruing	27	29	285		
Commercial Non-accruing		510	510		
Total real estate loans	1,081	1,631	1,612	360	
Commercial loans					
Consumer loans Accruing	189	319	269		
Consumer loans Non-accruing		20	89		
Total troubled debt restructurings	$ 1,270	$ 1,970	$ 1,970	$ 360	$
Total nonperforming loans to total loans	0.37 %	1.23 %	2.64 %	3.17 %	3.36 %
Total nonperforming assets to total assets	0.90 %	1.62 %	2.29 %	3.36 %	2.52 %
Total nonperforming assets and troubled debt restructurings to total assets	1.05 %	1.84 %	2.47 %	3.43 %	2.52 %

Classified Loans

(dollars in thousands)	December 31, 2013	2012
Special Mention loans	$ 3,456	$ 2,032
Substandard loans	1,054	2,467
Doubtful loans		
Total classified loans	$ 4,510	$ 4,499

Delinquencies

(dollars in thousands)	December 31, 2013			2012		
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due
Real estate loans:						
Residential	$ 122	$	$ 603	$ 130	$ 5	$ 1,555
Commercial			955			2,362
Total real estate loans	122		1,558	130	5	3,917
Commercial loans						
Consumer loans	484	45	84	1,025	148	122
Total	$ 606	$ 45	$ 1,642	$ 1,155	$ 153	$ 4,039

Allocation of Allowance for Loan Losses

The determination of the allowance for loan losses and the related provision is one of our critical accounting policies that is subject to significant estimates, as previously discussed. The current level of the allowance for loan losses is a result of management's assessment of the risks within the portfolio based on the information obtained through the credit evaluation process. The Company utilizes a risk-rating system on non-homogenous CRE and C&I loans that includes regular credit reviews to identify and quantify the risk in the commercial portfolio. Management conducts quarterly reviews of the entire loan portfolio and evaluates the need to establish allowances on the basis of these reviews.

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

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

(dollars in thousands)	December 31, 2013			2012			2011	
	Amount	% of Total ALLL	% of Total Loans	Amount	% of Total ALLL	% of Total Loans	Amount	% of Total ALLL
Real estate loans:								
Residential	$ 1,219	22.47 %	38.50 %	$ 1,149	19.70 %	36.34 %	$ 1,099	19.43
Commercial	2,517	46.39 %	28.70 %	3,107	53.27 %	23.95 %	2,485	43.93
Commercial loans	819	15.09 %	11.12 %	371	6.36 %	4.03 %	333	5.89
Consumer loans	871	16.05 %	21.68 %	1,206	20.67 %	35.68 %	1,739	30.75
Total allowance for loan losses	$ 5,426	100.00 %	100.00 %	$ 5,833	100.00 %	100.00 %	$ 5,656	100.00

(dollars in thousands)	December 31, 2010			2009		
	Amount	% of Total ALLL	% of Total Loans	Amount	% of Total ALLL	% of Total Loans
Real estate loans:						
Residential	$ 2,135	31.19 %	35.30 %	$ 765	7.58 %	26.02 %
Commercial	1,292	18.88 %	6.47 %	4,232	41.91 %	6.51 %
Commercial loans	608	8.88 %	1.63 %	79	0.78 %	1.22 %
Consumer loans	2,810	41.05 %	56.60 %	5,021	49.73 %	66.25 %
Total allowance for loan losses	$ 6,845	100.00 %	100.00 %	$ 10,097	100.00 %	100.00 %

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Loan Loss Experience

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

(dollars in thousands)	Fiscal Year Ended December 31, 2013	2012	2011	2010	2009
Allowance at beginning of period:	$ 5,833	$ 5,656	$ 6,845	$ 10,097	$ 4,616
Provision for loan losses	324	2,852	2,440	927	11,564
Charge offs:					
Real estate loans:					
Residential	(164)	(509)	(811)	(1,158)	(1,402)
Commercial	(238)	(1,464)	(698)	(445)	(294)
Commercial loans			(612)	(61)	(10)
Consumer loans	(810)	(1,438)	(2,296)	(3,399)	(5,297)
Total charge-offs	(1,212)	(3,411)	(4,417)	(5,063)	(7,003)
Recoveries:					
Real estate loans:					
Residential	98	148	141	121	102
Commercial				17	
Commercial loans	70	75	19		
Consumer loans	313	513	628	746	818
Total recoveries	481	736	788	884	920
Net charge-offs	(731)	(2,675)	(3,629)	(4,179)	(6,083)
Allowance at end of period	$ 5,426	$ 5,833	$ 5,656	$ 6,845	$ 10,097
Allowance to nonperforming loans	292.98 %	133.26 %	64.61 %	71.41 %	96.91 %
Allowance to total loans outstanding at end of period	1.09 %	1.65 %	1.70 %	2.26 %	3.25 %
Net charge-offs to average loans outstanding during period	(0.17) %	(0.69) %	(1.05) %	(1.35) %	(1.85) %

Underwriting Procedures and Standards

Loan Approval Procedures and Authority. Our lending activities follow written, non-discriminatory policies with loan approval limits approved by the Board of Directors. Loan officers have underwriting and approval authorization of varying amounts based on their years of experience in the lending field. Additionally, based on the amount of the loan, multiple signatures and or approvals are required. Our Chief Credit Officer has approval limits on individual loans up to $8 million and pool purchases up to $40 million. Per the Company's policy, the maximum the Bank could lend to any one borrower at December 31, 2013 was $10.0 million.

Our goal is to have a well-diversified and balanced loan portfolio. In order to manage our loan portfolio risk, we establish concentration limits by borrower, product type, maturity, loan structure, industry and geography. To supplement our internal loan review resources, we have engaged an independent third-party loan review group, which together represent our internal loan review function. Responsibility for loan underwriting, compliance and document monitoring reside with the compliance function and loan operations function.

Residential Real Estate Loans. Residential real estate loans generally include loans for the purchase or refinance of residential real estate properties consisting of 1-4 units and home equity loans and lines of credit. We currently sell substantially all of the long-term fixed rate residential real estate loans that we originate to secondary market investors. We also release the servicing of these loans upon sale. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, contacting delinquent mortgagors, supervising foreclosures and property dispositions in the event of unremedied defaults, making certain insurance and tax payments on behalf of the borrowers and generally administering the loans. We typically retain all adjustable rate residential real estate loans that exceed the government maximum loan amount (which is currently $417,000) and also loans with balloon payment features in our portfolio. Balloon periods are up to a maximum of 15 years. Qualified Mortgage Rules went into effect in January 2014 and we discontinued offering balloon loans. Loans secured by first liens on residential real estate held in the portfolio typically do not exceed 80% of the value of the collateral, are adjustable rate and have amortization periods of thirty years or less.

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

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

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

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

Commercial Real Estate Loans. Traditional CRE loans are comprised of loans to small business entities to purchase or expand structures in which the business operations are housed, loans to owners of real estate who lease space to non-related commercial entities, loans for construction and land development, and loans to owners of multi-family residential structures, such as apartment buildings. CRE loans are underwritten primarily based on historical and projected cash flows of the borrower and secondarily on the appraised value of the underlying real estate pledged as collateral on the debt. Credit tenant lease financing targets individual and institutional real estate investors purchasing commercial properties subject to long-term leasing arrangements with national or regional tenants. These transactions are typically longer term in nature given longer contractual lease periods and reliability of the cash flow from financially strong tenants. For the various types of commercial real estate loans, minimum criteria have been established within our loan policy regarding debt service coverage while maximum limits on loan-to-value and amortization periods have been defined. Maximum loan-to-value ratios range from 40% to 85% depending upon the type of real estate collateral, while the desired minimum debt coverage ratio is 1.20x. CRE loans represented 28.70% of our loan portfolio at December 31, 2013.

The Bank's CRE loan portfolio is closely monitored on an ongoing basis by the completion of annual reviews requiring site inspections, periodic financial statement updates from the borrower, property rent rolls, guarantor tax returns and personal financial statements, payment history reviews, and evidence of ongoing insurance renewals and property tax payments.

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

Deposit Activities and Other Sources of Funds

We obtain deposits through the ACH network (direct deposit as well as customer-directed transfers of funds from outside financial institutions), remote and mobile deposit capture, mailed checks, wire transfers, and a deposit-taking ATM network. We do not currently solicit brokered deposits, although we had approximately $17.8 million and $18.3 million in brokered time deposits at December 31, 2013 and 2012, respectively.

The Bank does not own or operate any ATMs. Through network participation, the Bank's customers are able to use nearly any ATM worldwide to withdraw cash. The Bank currently rebates up to $6.00 per customer per month for surcharges our customers incur when using an ATM owned by another institution. Management believes this program is more cost effective for the Bank, and more convenient for customers, than it would be to build and maintain a proprietary nationwide ATM network for our customers.

By providing a robust online toolset, quality customer service and a tremendous value for services offered, we have been able to develop relationships with our retail customers and build brand loyalty. The average retail checking or savings account has been open with us for more than eight years. As a result, we are not dependent upon costly account acquisition campaigns to attract new customers on a continual basis.

Deposits

(dollars in thousands)	Fiscal Year ended December 31,											
	2013				2012				2011			
Regular savings accounts	$	14,330	2.13	%	$	11,583	2.18	%	$	7,773	1.60	%
Non-interest bearing		19,386	2.88	%		13,187	2.49	%		15,870	3.26	%
Interest-bearing		73,748	10.96	%		73,660	13.88	%		64,006	13.15	%
Money market accounts		255,169	37.91	%		202,388	38.14	%		165,561	34.02	%
Certificates of deposit		292,685	43.48	%		211,542	39.86	%		209,762	43.10	%
Brokered deposits		17,890	2.66	%		18,490	3.48	%		23,898	4.91	%
Premiums on brokered deposits		(113)	(0.02)	%		(159)	(0.03)	%		(205)	(0.04)	%
Total	$	673,095	100.00	%	$	530,691	100.00	%	$	486,665	100.00	%

Time Deposits

(dollars in thousands)		December 31, 2013	
Interest Rate:			
<1.00%		$	146,532
1.00%	1.99%		50,700
2.00%	2.99%		75,492
3.00%	3.99%		34,577
4.00%	4.99%		736
5.00%	5.99%		2,538
Total		$	310,575

Time Deposit Maturities at December 31, 2013

(dollars in thousands)	Period to Maturity					
	Less than 1 year	> 1 year to 2 years	> 2 years to 3 years	More than 3 years	Total	Percentage of Total Certificate Accounts
Interest Rate:						
<1.00%	$ 111,483	$ 31,692	$ 2,957	$ 400	$ 146,532	47.18 %
1.00% 1.99%	7,258	11,939	10,006	21,497	50,700	16.32 %
2.00% 2.99%	4,132	26,309	44,962	89	75,492	24.31 %
3.00% 3.99%	18,936	5,296	7,261	3,084	34,577	11.13 %
4.00% 4.99%	1	735			736	0.24 %
5.00% 5.99%				2,538	2,538	0.82 %
Total	$ 141,810	$ 75,971	$ 65,186	$ 27,608	$ 310,575	100.00 %

Time Deposit Maturities of $100,000 or Greater

(dollars in thousands)	December 31, 2013
Maturity Period:	
3 months or less	$ 15,374
Over 3 through 6 months	14,730
Over 6 through 12 months	79,975
Over 12 months	127,194
Total	$ 237,273

Federal Home Loan Bank Advances

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

(dollars in thousands)	Fiscal Year Ended December 31,		
	2013	2012	2011
Balance outstanding at end of period	$ 31,793	$ 40,686	$ 40,573
Average amount outstanding during period	30,054	40,625	38,539
Maximum outstanding at any month end during period	31,793	40,686	40,573
Weighted average interest rate at end of period	2.63 %	3.22 %	3.22 %
Weighted average interest rate during period	3.53 %	3.35 %	3.52 %

Market Areas

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

We also deliver our CRE Credit Tenant Lease financing and asset based lending services nationally. We serve our traditional CRE borrowers in Indiana and bordering states. Traditional C&I banking focuses on Indiana and Arizona.

Our traditional CRE business and C&I activities are highly dependent on strong lender/borrower relationships.

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Competition

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

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

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

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

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

Regulation and Supervision

General

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

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

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

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

The Dodd-Frank Act

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

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

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

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

Holding Company Regulation

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

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

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

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

Regulation of Banks, Generally

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

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

Capital Requirements Generally. Currently, FDIC regulations require insured non-member banks generally to meet three minimum capital standards:

- a ratio of tangible capital to adjusted total assets (tangible capital ratio) of not less than 1.5%;

"Tangible capital" for this purpose is defined to include common stockholders' equity (including retained earnings), noncumulative perpetual preferred stock and related earnings and minority interests in consolidated subsidiaries, less intangibles and investments in certain "non-includable" subsidiaries.

- a ratio of "core capital" to adjusted total assets ("Tier 1 Capital Ratio" or "leverage ratio") of not less than 4%; and

"Core capital" (also called "Tier 1 Capital") is defined similarly to tangible capital, but also includes certain qualifying supervisory goodwill and certain purchased credit card relationships.

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

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

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

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

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

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

We are also subject to capital adequacy regulations of the Federal Reserve. These capital requirements are substantially similar to those applicable to the Bank. For bank holding companies, the minimum Tier 1 risk-based capital ratio is 4% and the minimum Total Risk-Based Capital Ratio is 8%. In addition to the risk-based capital requirements, the Federal Reserve requires top rated bank holding companies to maintain a minimum leverage capital ratio of Tier 1 capital (defined by reference to the risk-based capital guidelines) to its average total consolidated assets of at least 3.0%. For most other bank holding companies, the minimum leverage ratio is 4.0%. Bank holding companies with supervisory, financial, operational or managerial weaknesses, as well as bank holding companies that are anticipating or experiencing significant growth, are expected to maintain capital ratios well above the minimum levels. The following summarizes our applicable capital ratios as of December 31, 2013:

(dollars in thousands)	Actual			Minimum Capital Requirement			Minimum to be Well Capitalized Under Prompt Corrective Actions		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
As of December 31, 2013:									
Total capital (to risk-weighted assets)									
Consolidated	$ 96,981	17.1	%	$ 45,386	8.0	%	N/A	N/A	
Bank	77,862	13.8	%	45,287	8.0	%	56,609	10.0	%
Tier 1 capital (to risk-weighted assets)									
Consolidated	88,555	15.6	%	22,693	4.0	%	N/A	N/A	
Bank	72,436	12.8	%	22,644	4.0	%	33,965	6.0	%
Tier 1 capital (to average assets)									
Consolidated	88,555	11.7	%	30,385	4.0	%	N/A	N/A	
Bank	72,436	9.6	%	30,329	4.0	%	37,911	5.0	%

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

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

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

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

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

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

The Company believes that, as of December 31, 2013, the Company and the Bank would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis if such requirements were currently effective.

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

The CRA regulations establish an assessment system that bases an association's rating on its actual performance in meeting community needs. In particular, the assessment system focuses on three tests:

- a *lending test*, to evaluate our record of making loans in our local communities, defined as our CRA assessment areas;

- an *investment test*, to evaluate our record of investing in community development projects, affordable housing and programs benefiting low or moderate income individuals and businesses in our CRA assessment areas or a broader area that includes our assessment areas; and

- a *service test*, to evaluate our delivery of services through our retail banking channels and the extent and innovation of our community development services.

Due to its Internet focus, the Bank has opted to operate under a CRA Strategic Plan, which was submitted and approved by the FDIC and sets forth certain guidelines the Bank must meet in order to achieve a "Satisfactory" rating. The current Strategic Plan expires December 31, 2014 and the Bank will submit a new plan for approval prior to that date. The Bank received a "Satisfactory" CRA rating in its most recent CRA examination. Failure of an institution to receive at least a "Satisfactory" rating could inhibit such institution or its holding company from undertaking certain activities, including engaging in certain activities and acquisitions of other financial institutions.

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

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

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

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

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

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

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

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

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

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

FDIC insurance expense, including assessments relating to Financing Corporation (FICO) bonds, totaled $451,000, $455,000 and $727,000 for 2013, 2012 and 2011, respectively.

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

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

Federal Home Loan Bank System. The Bank is a member of the FHLBI, which is one of the regional Federal Home Loan Banks comprising the Federal Home Loan Bank System. Each Federal Home Loan Bank serves as a central credit facility primarily for its member institutions. The Bank, as a member of the FHLBI, is required to acquire and hold shares of FHLBI capital stock. While the required percentage of stock ownership is subject to change by the FHLBI, the Bank is in compliance with this requirement with an investment in FHLBI stock at December 31, 2013 of $2.9 million. Any advances from the FHLBI must be secured by specified types of collateral, and long-term advances may be used for the purpose of providing funds to make residential mortgage or commercial loans and to purchase investments. Long term advances may also be used to help alleviate interest rate risk for asset and liability management purposes. The Bank receives dividends on its FHLBI stock.

Federal Reserve System. Although the Bank is not a member of the Federal Reserve System, it is subject to provisions of the Federal Reserve Act and the Federal Reserve's regulations under which depository institutions may be required to maintain reserves against their deposit accounts and certain other liabilities. In 2008, the Federal Reserve Banks began paying interest on reserve balances. Currently, reserves must be maintained against transaction accounts (primarily NOW and regular checking accounts). As of December 31, 2013, the Federal Reserve's regulations required reserves equal to 3% on transaction account balances over $12.4 million and up to $79.5 million, plus 10% on the excess over $79.5 million. These requirements are subject to adjustment annually by the Federal Reserve. The Bank is in compliance with the foregoing reserve requirements. The balances maintained to meet the reserve requirements imposed by the Federal Reserve may be used to satisfy liquidity requirements imposed by the FDIC.

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

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

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

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

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

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

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

Employees

At December 31, 2013, we had 130 full-time equivalent employees. None of our employees are currently represented by a union or covered by a collective bargaining agreement. Management believes that its employee relations are satisfactory.

Corporate Information

We were incorporated under the laws of the State of Indiana on September 15, 2005. On March 21, 2006, we consummated a plan of exchange by which we acquired all of the outstanding shares of the Bank. Our principal executive offices are located at 8888 Keystone Crossing, Suite 1700, Indianapolis, Indiana 46240, and our telephone number is (317) 532-7900.

Available Information

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

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

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

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

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

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

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

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

Executive Officers of the Registrant

Our executive officers are as follows:

Name	**Age**	**Position**
David B. Becker	60	Chairman, President, Chief Executive Officer and Director
Nicole S. Lorch	39	Senior Vice President, Retail Banking
C. Charles Perfetti	69	Senior Vice President
Edward A. Roebuck	49	Senior Vice President and Chief Credit Officer
Kay E. Whitaker	54	Senior Vice President Finance, Chief Financial Officer and Secretary

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

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

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

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

Kay E. Whitaker was appointed to serve as Senior Vice President-Finance, Chief Financial Officer and Secretary in January 2013. Ms. Whitaker previously served as Chief Financial Officer at the Central Indiana Community Foundation from July 2007 to December 2012, where she managed all accounting, finance, human resources, facilities, technology and data functions. She also served as an independent consultant for PricewaterhouseCoopers from 2005 to 2007, as Chief Operating Officer of Energy Ventures, an energy services and utility corporation, from 1997 to 2004, as Chief Financial Officer of Golden Care, Inc., a respiratory therapy and supply company, from 1995 to 1997 and as a Senior Manager in the financial services: mortgage and commercial banking division of PricewaterhouseCoopers from 1982 to 1995.

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

Item 1A. Risk Factors

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

RISKS RELATED TO OUR BUSINESS

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

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

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

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

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

As of December 31, 2013, we had a net unrealized loss of $3.68 million on the available-for-sale portion of our $181.41 million investment securities portfolio. In assessing the impairment of investment securities, we consider the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuers, whether the market decline was affected by macroeconomic conditions and whether we have the intent to sell the security or will be required to sell the security before its anticipated recovery. We also use economic models to assist in the valuation of some of our investment securities. If our investment securities experience a decline in value, we would need to determine whether the decline represented an other-than-temporary impairment (OTTI), in which case we would be required to record a write-down or loss and a charge to our earnings.

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

The Bank conducts its consumer lending and deposit-gathering activities through the Internet. The financial services industry is undergoing rapid technological change, and we face constant evolution of customer demand for technology-driven financial and banking products and services. Many of our competitors have substantially greater resources to invest in technological improvement and product development, marketing and implementation. Any failure to successfully keep pace with and fund technological innovation in the markets in which we compete could have a material adverse effect on our business, financial condition and results of operations.

We may need additional capital resources in the future and these capital resources may not be available when needed or at all, without which our financial condition, results of operations and prospects could be materially impaired.

If we continue to experience significant growth, we may need to raise additional capital. Our ability to raise capital, if needed, will depend upon our financial performance and condition and on conditions in the capital markets, as well as economic conditions generally. Accordingly, such financing may not be available to us on acceptable terms or at all. If we cannot raise additional capital when needed, it would have a material adverse effect on our business, financial condition and results of operations.

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

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

We rely on our management team and could be adversely affected by the unexpected loss of key officers.

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

Fluctuations in interest rates could reduce our profitability and affect the value of our assets.

Like other financial institutions, we are subject to interest rate risk. Our primary source of income is net interest income, which is the difference between interest earned on loans and investments and interest paid on deposits and borrowings. We expect that we will periodically experience imbalances in the interest rate sensitivities of our assets and liabilities and the relationships of various interest rates to each other. Over any defined period of time, our interest-earning assets may be more sensitive to changes in market interest rates than our interest-bearing liabilities, or vice-versa. In addition, the individual market interest rates underlying our loan and lease and deposit products may not change to the same degree over a given time period. In any event, if market interest rates should move contrary to our position, earnings may be negatively affected. In addition, loan and lease volume and quality and deposit volume and mix can be affected by market interest rates as can the businesses of our clients. Changes in levels of market interest rates could have a material adverse effect on our net interest spread, asset quality, origination volume and overall profitability.

Market interest rates are beyond our control, and they fluctuate in response to economic conditions and the policies of various governmental and regulatory agencies, in particular, the Board of Governors of the Federal Reserve (the “Federal Reserve”). Changes in monetary policy, including changes in interest rates, may negatively affect our ability to originate loans and leases, the value of assets and our ability to realize gains from the sale of our assets, all of which ultimately could affect our earnings.

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

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

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

At December 31, 2013, our consumer loans totaled $107.56 million, representing approximately 21.68% of our total loan portfolio at such date. The overwhelming majority of our consumer loans are horse trailer and recreational vehicle loans acquired through indirect dealer networks. Consumer loans generally have a greater risk of loss or default than do residential mortgage loans, particularly in the case of loans that are secured by rapidly depreciating assets such as horse trailer and recreational vehicles. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower’s continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans. It may become necessary to increase our provision for loan losses in the event that our losses on these loans increase, which would reduce our earnings and have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

If our mortgage lending business does not grow, we will not be as profitable as we have been in recent years.

The residential mortgage business is highly competitive, and highly susceptible to changes in market interest rates, consumer confidence levels, employment statistics, the capacity and willingness of secondary market purchasers to acquire and hold or securitize loans, and other factors beyond our control. Additionally, in many respects, the mortgage origination business is relationship based and dependent on the services of individual mortgage loan officers. The loss of services of one or more loan officers could have the effect of reducing the level of our mortgage production. As a result of these factors, we cannot be certain that we will be able to maintain or grow the volume or percentage of revenue or net income produced by our residential mortgage loan business. A decline in our residential mortgage business may have an adverse effect on our financial condition and results of operations.

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

Historically, our mortgage loan business has provided a significant portion of our revenue and our ability to maintain or grow that revenue is dependent upon our ability to originate loans and sell them on the secondary market. During the year ended December 31, 2012, income from mortgage banking activities was $10.65 million and for the year ended December 31, 2013, $8.68 million. Mortgage loan origination is sensitive to changes in economic conditions, including decreased economic activity, a slowdown in the housing market, or higher market interest rates, and has historically been cyclical, enjoying periods of strong growth and profitability followed by periods of lower volumes and market-wide losses. During periods of rising interest rates, refinancing originations for many mortgage products tend to decrease as the economic incentives for borrowers to refinance their existing mortgage loans are reduced. In addition, the mortgage loan origination business is affected by changes in real property values. A reduction in real property values could also negatively affect our ability to originate mortgage loans because the value of the real properties underlying the loans is a primary source of repayment in the event of foreclosure. The national market for residential mortgage loan refinancing has recently experienced a decline, and a continuation of that trend may adversely impact our business. Any sustained period of increased delinquencies, foreclosures or losses could harm our ability to originate and sell mortgage loans, and the price received on the sale of such loans, which could have a material adverse effect on our business, financial condition and results of operations.

Reputational risk and social factors may negatively affect us.

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

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

RISKS RELATING TO THE REGULATION OF OUR INDUSTRY

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

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

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

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

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

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

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

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

On December 10, 2013 five federal agencies (the Federal Reserve, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, Commodity Futures Trading Commission, and the Securities and Exchange Commission) published the final Volcker Rule pursuant to the Dodd-FrankAct which was subsequently revised on January 14, 2014. The Company holds a trust preferred collateralized debt obligation (CDO) which was not included on the non-exclusive issuer list. The agencies may conclude the security may not be retained by the Company, which could result in an adverse charge to earnings.

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

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

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

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

RISKS RELATED TO OUR COMMON STOCK

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

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

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

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

Anti-takeover provisions could negatively impact our shareholders.

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

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

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

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

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

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

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

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

The Company borrowed $4.0 million from the Bank for the purchase of the Fishers property. The scheduled maturity date of the loan is March 6, 2014. Effective March 6, 2014, we entered into an Acknowledgment, Confirmation and Amendment that, among other things, extended the maturity until March 6, 2015. The loan bears interest during the term at a variable rate equal to the then applicable prime rate (as determined by the Bank with reference to the "Prime Rate" published in The Wall Street Journal) plus 1.00% per annum. The loan agreement contains customary affirmative covenants and events of default. The loan agreement provides that the loan is to be secured by a first priority mortgage and lien on the acquired property and requires that the Company maintain collateral securing the loan that has a value of not less than $5.2 million during the term of the loan.

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

None.

PART II

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

Market Information

Our common stock began trading on the NASDAQ Capital Market under the symbol "INBK" effective February 22, 2013. Previously, our common stock (and prior to the formation of the Company, shares of the common stock of the Bank) were quoted on the over-the-counter market under the symbol "FIBP." These quotations as reported on the over-the-counter market reflect inter-dealer prices without retail mark-up, mark-down, or commissions and may not necessarily represent actual transactions.

The following table sets forth the range of high and low bid quotations for each quarter within the two most recent fiscal years.

Period	High (US$)	Low (US$)	Declared Dividends
Year Ended December 31, 2012:			
First Quarter	$ 10.60	$ 6.83	$
Second Quarter	10.67	8.87	
Third Quarter	11.37	9.37	
Fourth Quarter	15.32	10.67	0.1667
Year Ended December 31, 2013:			
First Quarter	19.77	13.67	0.0400
Second Quarter	21.88	14.43	0.0600
Third Quarter	36.00	20.99	0.0600
Fourth Quarter	31.82	20.12	0.0600

As of March 28, 2014, we had 4,449,619 shares of common stock issued and outstanding, and there were 189 holders of record of our common stock.

Dividends

We paid a special cash dividend of $0.1667 per share of common stock on December 28, 2012. We had never previously paid any dividends. Beginning in the first quarter of 2013, the Company began to pay regular quarterly dividends. Total dividends declared in 2013 were $0.2200 per share. The Company expects to continue to pay cash dividends on a quarterly basis; however, the declaration and amount of any future cash dividends will be subject to the sole discretion of our Board of Directors and will depend upon many factors, including our financial condition, earnings, capital requirements of our operating subsidiaries, legal requirements, regulatory constraints and other factors deemed relevant by our Board of Directors.

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

Recent Sales of Unregistered Securities

None.

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Item 6. Selected Financial Data

Five Year Selected Financial and Other Data

(dollars in thousands)	Fiscal Year ended December 31, 2013	2012	2011	2010	2009
Balance Sheet Data:					
Total assets	$ 802,342	$ 636,367	$ 585,440	$ 503,915	$ 504,615
Cash and cash equivalents	53,690	32,513	34,778	32,417	30,016
Loans receivable, net	495,727	352,328	329,570	299,545	305,439
Loans held for sale	28,610	63,234	45,091	5,008	7,169
Investment securities available for sale	181,409	156,693	149,270	136,936	133,584
Deposits	673,095	530,691	486,665	422,703	411,627
Tangible common equity (1)	86,221	56,663	50,736	44,210	40,077
Total shareholders' equity	90,908	61,350	55,423	48,897	44,764
Income Statement Data:					
Interest and dividends	$ 25,536	$ 24,374	$ 23,944	$ 25,296	$ 28,607
Interest expense	8,088	8,532	9,621	10,785	14,859
Net interest income	17,448	15,842	14,323	14,511	13,748
Provision for loan losses	324	2,852	2,440	927	11,564
Net interest income after provision	17,124	12,990	11,883	13,584	2,184
Non-interest income	9,517	11,423	3,559	3,437	2,903
Non-interest expenses	20,482	16,613	11,483	10,370	9,341
Income (loss) before income taxes	6,159	7,800	3,959	6,651	(4,254)
Income taxes	1,566	2,194	773	1,696	(2,136)
Net income (loss)	$ 4,593	$ 5,606	$ 3,186	$ 4,955	$ (2,118)
Net income (loss) available to common shareholders	$ 4,593	$ 5,606	$ 3,186	$ 4,955	$ (2,118)
Per Share Data:					
Net income					
Basic	$ 1.51	$ 1.95	$ 1.11	$ 1.74	$ (0.75)
Diluted	$ 1.51	$ 1.95	$ 1.11	$ 1.74	$ (0.75)
Tangible book value per common share at period end (1)	$ 19.38	$ 20.13	$ 18.07	$ 15.75	$ 14.28
Average common shares outstanding					
Basic	3,041,666	2,869,365	2,859,434	2,848,379	2,838,123
Diluted	3,050,001	2,869,365	2,859,434	2,848,379	2,838,123
Common shares outstanding at end of	4,448,326	2,815,094	2,807,385	2,807,385	2,807,385

period					
Dividends common stock	$ 0.2200	$ 0.1667	$	$	$
Dividend payout ratio (2)	14.57 %	8.53 %	%	%	%

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	Fiscal Year ended December 31, 2013		2012		2011		2010		2009	
Performance Ratios:										
Return on average assets	0.67	%	0.91	%	0.59	%	1.01	%	(0.40)	%
Return on average equity	7.10	%	9.51	%	6.09	%	10.10	%	(4.56)	%
Net interest margin (3)	2.67	%	2.67	%	2.75	%	3.06	%	2.67	%
Income as a percentage of average assets (4)	5.12	%	5.83	%	5.09	%	5.96	%	5.93	%
Noninterest income as a percentage of average assets	1.39	%	1.86	%	0.66	%	0.70	%	0.55	%
Noninterest expense to average assets	2.99	%	2.70	%	2.12	%	2.11	%	1.76	%
Efficiency ratio (5)	75.96	%	60.93	%	64.22	%	57.78	%	56.10	%
Asset Quality Ratios:										
Nonperforming loans as a percentage of total loans	0.37	%	1.23	%	2.64	%	3.17	%	3.36	%
Nonperforming assets to total assets	0.90	%	1.62	%	2.29	%	3.36	%	2.52	%
Nonperforming assets (including troubled debt restructurings) to total assets	1.05	%	1.84	%	2.47	%	3.43	%	2.52	%
Allowance for loan losses as a percentage of total loans receivable	1.09	%	1.65	%	1.70	%	2.26	%	3.25	%
Net (charge-offs) recoveries to average outstanding loans during the period	(0.17)	%	(0.69)	%	(1.05)	%	(1.35)	%	(1.85)	%
Allowance for loan losses as a percentage of nonperforming loans	292.98	%	133.26	%	64.61	%	71.41	%	96.91	%
Capital Ratios:										
Tangible common equity to tangible assets (1)	10.81	%	8.97	%	8.74	%	8.86	%	8.02	%
Total capital to risk weighted assets (6)(7)	17.10	%	13.46	%	12.40	%	12.16	%	11.04	%
Tier 1 capital to risk weighted assets (6)(7)	15.60	%	12.20	%	11.15	%	10.91	%	9.77	%
Tier 1 capital to average assets (6)	11.70	%	8.89	%	8.74	%	9.41	%	7.72	%
Other Data:										
Full-time equivalent employees	130		97		74		52		50	
Number of offices	4		1		1		1		2	

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

(1)

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

(dollars in thousands, except share data)	Fiscal Year ended December 31, 2013		2012		2011		2010		2009	
Total equity - GAAP	$ 90,908		$ 61,350		$ 55,423		$ 48,897		$ 44,764	
Adjustments										
Goodwill	(4,687)		(4,687)		(4,687)		(4,687)		(4,687)	
Tangible common equity	86,221		56,663		50,736		44,210		40,077	
Total assets - GAAP	802,342		636,367		585,440		503,915		504,615	
Adjustments										
Goodwill	(4,687)		(4,687)		(4,687)		(4,687)		(4,687)	
Tangible assets	797,655		631,680		580,753		499,228		499,928	
Total common shares	4,448,326		2,815,094		2,807,385		2,807,385		2,807,385	
Book value per common share	$ 20.44		$ 21.79		$ 19.74		$ 17.42		$ 15.95	
Effect of adjustment	$ (1.06)		$ (1.66)		$ (1.67)		$ (1.67)		$ (1.67)	
Tangible book value per common share	$ 19.38		$ 20.13		$ 18.07		$ 15.75		$ 14.28	
Total shareholders' equity to assets ratio	11.33	%	9.64	%	9.47	%	9.70	%	8.87	%
Effect of adjustment	(0.52)	%	(0.67)	%	(0.73)	%	(0.84)	%	(0.85)	%
Tangible common equity to tangible assets ratio	10.81	%	8.97	%	8.74	%	8.86	%	8.02	%

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

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

(4) Income consists of interest income and noninterest income.

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

(6) Capital ratios are calculated in accordance with regulatory accounting principles specified by our primary federal banking regulatory authority.

(7) During 2013, we changed the methodology we use to determine a component of our risk-weighted assets for regulatory capital purposes. The old methodology overstated the risk to which we were exposed on these assets, as we reported as assets sold with recourse loans we had sold to investors who had no right to return them. We discussed our intention to make this change with our regulators and began using the new methodology in the Company's June 30, 2013 regulatory filings. We subsequently amended the Company's December 31, 2012 and March 31, 2013 regulatory filings to conform the computation of these regulatory capital ratios to the new methodology. The change in methodology had no impact on our financial statements prepared in accordance with GAAP because the transfers of the assets to the investors were considered true sales under relevant accounting guidance.

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

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

Overview

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

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

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

Financial Condition

Comparison of December 31, 2013 to December 31, 2012

- Total assets were $802.34 million at December 31, 2013 compared to $636.37 million at December 31, 2012.
- Net loans receivable grew 40.70% in 2013 following efforts to expand the Company's loan origination capabilities and diversify revenue streams. Total C&I loan balances increased 286.57% at December 31, 2013 versus December 31, 2012. CRE loans, which include owner occupied loans, represented an increase of 67.73% at December 31, 2013 from December 31, 2012. Credit tenant lease financing experienced the largest growth within the commercial real estate portfolio, up 197.81% since December 31, 2012. Credit tenant lease loans are originated nationwide via the Bank's established network which provides geographic diversification within specific concentration limits.
- Reflecting continued credit quality, total nonperforming loans at December 31, 2013 were 57.69% less than December 31, 2012. The allowance for loan losses was 1.09% of total loans at December 31, 2013 versus 1.65% at December 31, 2012. The ratio of nonperforming loans to total loans declined to 0.37% at December 31, 2013, compared to 1.23% at December 31, 2012.
- Loans held for sale totaled $28.61 million at December 31, 2013 compared to $63.23 million for December 31, 2012. The decrease is due to a 32.18% lower volume of closed loans in the three month period ended December 31, 2013 than in the three month period ending December 31, 2012.
- Total deposits grew to $673.10 million at December 31, 2013, compared with $530.69 million at December 31, 2012, with lower cost of funds and without the use of brokered deposits.
- Tangible common equity increased $29.56 million from $56.66 million at December 31, 2012 to $86.22 million at December 31, 2013. The increase is attributable to the Company completing a public offering of 1.587 million shares of its common stock in 2013, resulting in net proceeds to the Company of $29.10 million. Tangible book value per common share decreased 3.73% from $20.13 at December 31, 2012 to $19.38 at December 31, 2013.
- The Company issued subordinated debt and a related warrant to purchase common stock to a third party for $3.00 million on June 28, 2013.

Results of Operations

Fiscal Year Ended December 31, 2013 vs. Fiscal Year Ended December 31, 2012

- Net income decreased 18.18%, to $4.59 million, or $1.51 per diluted share for the year ended December 31, 2013 compared to $5.61 million or $1.95 per diluted share for the 2012 period. The 58.02% year-over-year increase in common shares outstanding contributed to the impact on our earnings per share ratio.

- Income as a percentage of average assets decreased from 5.83% for the year ended December 31, 2012 to 5.12% for the 2013 period, reflecting decreased net income and increased average assets.

- Net interest income after provision for loan losses increased $4.13 million or 31.82% in the year ended December 31, 2013 from the corresponding 2012 period. The increase is attributable to a $1.60 million increase in net interest income and a $2.53 million decrease in the provision for credit losses due to improvement in credit quality. Net charge-offs as a percentage of average loans were 0.17% for the year ended December 31, 2013 versus 0.69% for the prior year.

- Net interest margin remained constant at 2.67% in the year ended December 31, 2013 compared to 2.67% in the prior year period. Although our cost of funds decreased 15.16% in the year ended December 31, 2013 from the year ago period, this benefit was offset by a lower yield on earning assets.

- Noninterest income as a percentage of average assets decreased from 1.86% for the year ended December 31, 2012 to 1.39% for the 2013 period. This decrease was primarily caused by a nationwide slowing in mortgage refinancing activity which negatively impacted our 2013 results.

- Noninterest expense for the year ended December 31, 2013 increased 23.29% over the prior year as the Company added employees to produce and in support of continued growth. The Company experienced an increase in consulting and professional fees directly related to the additional costs associated with being a public company. Additionally, to accommodate growth, the Company expanded its facilities, which increased occupancy expenses and related equipment costs.

- Noninterest expense to average assets increased from 2.70% for the year ended December 31, 2012 to 2.99% for the 2013 period reflecting the continuing investment in our revenue channels. The Company also incurred expenses related to the NASDAQ listing and becoming an SEC-reporting company.

- Return on average assets for the year ended December 31, 2013 was 0.67% versus 0.91% in the prior year, which reflects the decrease in net income and the increase in assets.

- Return on average equity for the year ended December 31, 2013 was 7.10% compared to 9.51% for the prior year, which reflects the decrease in net income and the additional $29.10 million of new capital.

Average Balance Sheets, Net Interest Earnings

For the periods presented, the following table provides the total dollar amount of interest income from average interest-earning assets and the resulting yields, and the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, and the net interest margin. The table does not reflect any effect of income taxes. Balances are based on the average of daily balances. Nonaccrual loans are included in average loan balances.

Average Balance Sheets

	Year Ended December 31,								
	2013			2012			2011		
(dollars in thousands)	Average Balance	Interest and Dividends	Yield/Cost	Average Balance	Interest and Dividends	Yield/Cost	Average Balance	Interest and Dividends	Yield/C
Assets:									
Interest-earning assets:									
Loans	$ 435,799	$ 20,843	4.78 %	$ 390,058	$ 19,560	5.01 %	$ 346,589	$ 18,752	5.41
Investment securities	180,850	4,502	2.49 %	172,887	4,645	2.69 %	145,823	5,045	3.46
FHLB stock	2,943	103	3.50 %	2,943	100	3.40 %	3,080	83	2.69
Other interest-earning assets	34,842	88	0.25 %	27,363	69	0.25 %	25,383	64	0.25
Total interest-earning assets	654,434	25,536		593,251	24,374		520,875	23,944	
Noninterest-earning assets	30,146			21,289			19,938		
Total assets	$ 684,580			$ 614,540			$ 540,813		
Liabilities and equity:									
Interest-bearing liabilities									
Regular savings accounts	$ 13,806	$ 81	0.59 %	$ 9,999	$ 58	0.58 %	$ 7,417	$ 48	0.65
Interest-bearing demand deposits	68,366	376	0.55 %	62,154	351	0.56 %	55,708	386	0.69
Money market accounts	224,383	1,666	0.74 %	187,029	1,448	0.77 %	151,134	1,444	0.96
Certificates and brokered deposits	260,549	4,738	1.82 %	238,575	5,315	2.23 %	220,601	6,388	2.90
Total interest-bearing deposits	567,104	6,861		497,757	7,172		434,860	8,266	
Other borrowings	31,471	1,227	3.90 %	40,625	1,360	3.35 %	38,559	1,355	3.51
Total interest-bearing liabilities	598,575	8,088		538,382	8,532		473,419	9,621	
Noninterest-bearing liabilities	13,605			13,939			8,218		
Other non-interest bearing liabilities	7,696			3,285			6,863		
Total liabilities	619,876			555,606			488,500		
Stockholders' equity	64,704			58,934			52,313		
Total liabilities and equity	$ 684,580			$ 614,540			$ 540,813		

Net interest income	$ 17,448	$ 15,842	$ 14,323
Interest rate spread	2.55 %	2.52 %	2.57
Net interest margin	2.67 %	2.67 %	2.75
Average interest-earning assets to average interest-bearing liabilities	109.33 %	110.19 %	110.0

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Rate/Volume Analysis

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

	Rate/Volume Analysis of Net Interest Income Fiscal Years Ended December 31,								
	2013 vs. 2012			2012 vs. 2011			2011 vs. 2010		
(dollars in thousands)	Due to Changes in			Due to Changes in			Due to Changes in		
	Volume	Rate	Net	Volume	Rate	Net	Volume	Rate	Net
Interest income									
Loans receivable	$ 2,212	$ (929)	$ 1,283	$ 2,233	$ (1,425)	$ 808	$ 2,209	$ (3,325)	$ (1,116)
Investment securities	210	(353)	(143)	776	(1,177)	(401)	416	(665)	(249)
FHLB stock		3	3	(4)	22	18	(11)	26	15
Other interest-earning assets	19		19	5		5	(5)	3	(2)
Total	2,441	(1,279)	1,162	3,010	(2,580)	430	2,609	(3,961)	(1,352)
Interest expense									
Deposits	790	(1,101)	(311)	852	(1,946)	(1,094)	578	(1,566)	(988)
Other borrowings	(335)	202	(133)	71	(66)	5	85	(261)	(176)
Total	455	(899)	(444)	923	(2,012)	(1,089)	663	(1,827)	(1,164)
Increase (decrease) in net interest income	$ 1,986	$ (380)	$ 1,606	$ 2,087	$ (568)	$ 1,519	$ 1,946	$ (2,134)	$ (188)

Liquidity and Capital Resources

Total shareholders' equity increased $29.56 million during 2013. The increase is attributable to the Company completing a public offering of 1.587 million shares of its common stock in 2013, resulting in net proceeds to the Company of $29.10 million.

The Company's primary source of funds is dividends from the Bank, the declaration of which is subject to regulatory limits. The Company's primary use of cash is to pay regular quarterly dividends. Total dividends declared in 2013, adjusting for the 3-for-2 stock split, were $0.22 per share.

The Company expects to continue to pay cash dividends on a quarterly basis; however, the declaration and amount of any future cash dividends will be subject to the sole discretion of our Board of Directors and will depend upon many factors, including our financial condition, earnings, capital requirements of our operating subsidiaries, legal requirements, regulatory constraints and other factors deemed relevant by our Board of Directors. At December 31, 2013, the Company, on an unconsolidated basis, had $17.98 million in cash generally available for its cash needs.

At December 31, 2013, we had $235.10 million in cash and investment securities available for sale and $28.61 million in loans held for sale that were generally available for our cash needs. At December 31, 2013, we had the ability to borrow an additional $86.00 million in FHLB advances and correspondent bank fed funds line of credit draws.

At December 31, 2013, approved outstanding loan commitments, including unused lines of credit, amounted to $49.10 million. Certificates of deposit scheduled to mature in one year or less at December 31, 2013, totaled $141.81 million; however, due to our competitive rates, we believe that a majority of maturing deposits will remain with the Bank.

OREO increased by 19.50% during 2013 to $4.38 million. The increase is attributable to capitalized improvements made on two buildings that are residential units on a college campus. These improvements have been made in collaboration with the university and the property continues to be occupied.

Total deposits increased 26.83% from the end of 2012, most notably in money market accounts and certificates of deposit, which increased 26.08% and 38.36%, respectively.

At December 31, 2013, the Company and the Bank exceeded all applicable regulatory capital minimum requirements, and the Bank was considered "well-capitalized" under applicable regulations. We believe our capital resources are sufficient to meet our current and expected needs, including any cash dividends we may pay; however, if we continue to experience significant growth, we may require additional capital resources. We demonstrated our access to public equity and private debt markets during 2013.

Investing Activities

Investment Securities Portfolio

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

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

(dollars in thousands)	December 31,					
	2013		2012		2011	
	Amortized Cost	Approximate Fair Value	Amortized Cost	Approximate Fair Value	Amortized Cost	Approximate Fair Value
Securities available for sale:						
U.S. Government-sponsored enterprises	$ 57,569	$ 56,277	$ 18,666	$ 19,618	$ 24,685	$ 25,502
Municipals	46,126	46,323	39,999	42,540	40,849	42,761
Mortgage- and asset-backed securities government-sponsored enterprises	75,058	73,941	75,782	77,489	67,354	69,790
Mortgage- and asset-backed securities private labeled	1,313	1,232	2,696	2,453	5,850	5,445
Other securities	5,025	3,636	16,753	14,593	8,648	5,772
Total securities available for sale	$ 185,091	$ 181,409	$ 153,896	$ 156,693	$ 147,386	$ 149,270

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

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

At December 31, 2013, the Company had investments in two different trust preferred CDOs. One of the Company's CDOs is included in the list of non-exclusive issuers that are not subject to the Volcker Rule. Management has analyzed the terms of I-PreTSL I, the other CDO that was not included on the non-exclusive issuer list and the criteria under the interim final rule and have concluded that it is more likely than not that we will be able to hold this security to recovery under the final Volcker Rule regulations.

Our trust preferred CDOs consist of the two securities identified in the following table, which contains information regarding these securities as of December 31, 2013 (amounts in thousands):

Deal name	I-PreTSL I		ALESCO IV	
Class	B-2 Notes		B-2 Notes	
Book value	$ 2,000		$ 1,025	
Fair value	$ 1,371		$ 302	
Unrealized loss	$ (629)		$ (723)	
Other-than-temporary impairment recorded in earnings	$		$ 964	
Lowest credit rating assigned	CCC-		C	
Number of performing institutions	14		34	
Number of issuers in default			1	
Number of issuers in deferral	2		2	
Original collateral	$ 351,000		$ 400,000	
Actual defaults & deferrals as a % of original collateral	9.26	%	3.88	%
Remaining collateral	$ 188,500		$ 256,595	
Actual defaults & deferrals as a % of remaining collateral	17.24	%	6.04	%
Expected defaults & deferrals as a % of remaining collateral	26.94	%	10.35	%
Performing collateral	$ 156,000		$ 241,095	
Current balance of class	$ 33,200		$ 56,374	
Subordination	$ 16,000		$	
Excess subordination	$ 12,328		$ (72,874)	
Excess subordination as a % of performing collateral	7.9	%	(30.2)	%
Cash Flow Analysis Assumptions:				
Discount margin (1)	6.00	%	12.50	%
Cumulative Default % Range	3.8% - 100	%	2.1% - 54.4	%
(Weighted Average)	(26.9)	%	(9.5)	%
Loss Given Default % Range	85% - 85	%	90% - 100	%
(Weighted Average)	(85)	%	(89.1)	%
Cumulative Prepayment % Range	29.0% - 37.6	%	0% - 100	%
(Weighted Average)	(32.1)	%	(12.8)	%

(1) The discount rate for floating rate bonds is a compound interest formula based on the London Interbank Offered Rate (LIBOR) forward curve for each payment date

These two CDOs are backed by pools of debt securities issued by financial institutions. The collateral of the ALESCO CDO consists of trust-preferred securities (“TruPS”) and subordinated debt securities issued by banks and bank holding companies. The collateral of the I-PreTSL CDO consists of TruPS and subordinated debt securities of insurance companies. Performing collateral is the amount of remaining collateral less the balances of collateral in deferral or default. Subordination is the amount of performing collateral in excess of the current balance of a specified class of notes and all classes senior to the specified class. Excess subordination is the amount that the performing collateral balance exceeds the outstanding bonds in the current class, plus all senior classes. It is a static measure of credit enhancement, but does not incorporate all of the structural elements of the security deal. This amount can also be impacted by future defaults and deferrals, deferring balances that cure or redemptions of securities by issuers. A negative excess subordination indicates that the current performing collateral of the security would be insufficient to pay the current principal balance of the class notes after all of the senior classes notes were paid.

However, the performing collateral balance excludes the collateral of issuers currently deferring their interest payments. Because these issuers are expected to resume payment in the future (within five years of the first deferred interest period), a negative excess subordination does not necessarily mean a class note holder in the CDO will not receive a greater than projected or even full payment of cash flow at maturity.

At December 31, 2013 and 2012 the Company was receiving “payment in kind” (“PIK”), in lieu of cash interest on the ALESCO trust preferred securities investment. The Company’s use of “PIK” does not indicate that additional securities have been issued in satisfaction of any outstanding obligation; rather, it indicates that a coverage test of a class or tranche directly senior to the class in question has failed and interest received on the PIK note is being capitalized, which means the principal balance is being increased. Once the coverage test is met, the capitalized interest will be paid in cash and current cash interest payments will resume.

The Company’s CDOs both allow, under the terms of the issue, for issuers to defer interest for up to five consecutive years. After five years, if not cured, the securities are considered to be in default and the trustee may demand payment in full of principal and accrued interest. Issuers of the securities in the collateral pool are also considered to be in default in the event of the failure of the issuer or a subsidiary. The structuring of these CDOs provides for a waterfall approach to absorbing losses whereby lower classes or tranches are initially impacted and more senior tranches are only impacted after lower tranches can no longer absorb losses. Likewise, the waterfall approach also applies to principal and interest payments received, as senior tranches have priority over lower tranches in the receipt of payments. Both deferred and defaulted issuers are considered nonperforming, and the trustee calculates, on a quarterly or semi-annual basis, certain coverage tests prior to the payment of cash interest to owners of the various tranches of the securities. The coverage tests are compared to an over-collateralization target that states the balance of performing collateral as a percentage of the tranche balance plus the balance of all senior tranches. The tests must show that performing collateral is sufficient to meet requirements for the senior tranches, both in terms of cash flow and collateral value, before cash interest can be paid to subordinate tranches. As a result of the cash flow waterfall provisions within the structure of these securities, when a senior tranche fails its coverage test, all of the cash flows that would have been paid to lower tranches are paid to the senior tranche and recorded as a reduction of the senior tranches’ principal. This principal reduction in the senior tranche continues until the coverage test of the senior tranche is passed or the principal of the tranche is paid in full. For so long as the cash flows are being diverted to the senior tranches, the amount of interest due and payable to the subordinate tranches is capitalized and recorded as an increase in the principal value of the tranche. The Company’s CDO investments are in the mezzanine tranches or classes which are subordinate to one of more senior tranches of their respective issues. The Company is receiving PIK for the ALESCO CDO due to failure of the required senior tranche coverage tests described. This security is currently projected to remain in full or partial PIK status for a period of three years.

The impact of payment of PIK to subordinate tranches is to strengthen the position of the senior tranches by reducing the senior tranches’ principal balances relative to available collateral and cash flow. The impact to the subordinate tranches is to increase principal balances, decrease cash flow, and increase credit risk to the tranches receiving the PIK. The risk to holders of a security of a tranche in PIK status is that the total cash flow will not be sufficient to repay all principal and capitalized interest related to the investment.

During the third quarter of 2009, after analysis of the expected future cash flows and the timing of resumed interest payments, the Company determined that placing the ALESCO CDO on nonaccrual status was the most prudent course of action. The Company stopped all accrual of interest and never capitalized any PIK interest payments to the principal balance of the security. The Company intends to keep this security on nonaccrual status until the scheduled interest payments resume on a regular basis and any previously recorded PIK has been paid. The PIK status of this security, among other factors, indicates potential OTTI and accordingly, the Company utilized an independent third party for the valuation of the CDOs as of December 31, 2013. Based on this valuation and the Company’s review of the assumptions and methodologies used, the Company believes the amortized costs recorded for its CDO investments accurately reflects the position of these securities at December 31, 2013.

Within the valuation performed, the default and recovery probabilities for each piece of collateral were formed based on the evaluation of the collateral credit and a review of historical industry default data and current/near-term operating conditions. For collateral that has already defaulted, the Company assumed no recovery. For collateral that was in deferral, the Company assumed a recovery of 10% of par for banks, thrifts or other depository institutions, and

15% of par for insurance companies. Although the Company conservatively assumed that the majority of the deferring collateral continues to defer and eventually defaults, also recognizes there is a possibility that some deferring collateral may become current at some point in the future.

TruPS CDOs are typically subject to five-year no call provisions. At the expiration of these lockout periods, they are typically freely callable at par. As most of TruPS within CDOs were issued before 2008, most securities are now freely callable at par. Although less common, some issuances are callable before the end of a lock out period at a premium (levels varying from issuer to issuer and typically depending on how close to the end of the no call period). Additionally, there exists a provision in most trust preferred indentures that allow for the securities to become callable at par (even during the lockout period) if there is an adverse capital treatment event.

Prepayment assumptions are predicated on the terms and pricing of CDOs relative to prevailing current market conditions, as well as regulatory and legislative developments that may affect issuers' decision to prepay. There were no significant changes made within the prepayment assumptions during 2013. Our CDOs have a five-year call option meaning that, on the fifth anniversary of issuance, the issuer has the right to redeem the security at par. Additionally, most trust preferred security indentures include language that permits an issuer to call the security if an adverse capital treatment event occurs. These provisions allow issuers to redeem at virtually any time if a legislative or regulatory development changes the TruPS' status as a component of Tier 1 capital. The passage of the Dodd-Frank Act in July 2010, constituted such an event for certain bank holding companies. Specifically, bank holding companies with consolidated assets of $15 billion or more can no longer treat as Tier 1 Capital any hybrid capital instruments (such as TruPS) issued on or after May 19, 2010. Furthermore, the ability of these institutions to continue to treat as Tier 1 Capital any hybrid capital instruments, including TruPS, issued before May 19, 2010, will be phased out incrementally over a period of three years, beginning January 1, 2013. Notwithstanding the foregoing, we believe that the terms and pricing of TruPS issued by banks and insurance companies were so aggressive that it is unlikely that financing on such attractive terms will become available in the foreseeable future. Additionally, the favorable capital treatment of these securities (i.e. status as Tier 1 capital) makes them a particularly attractive debt instrument. Therefore, we assume that the bulk of the TruPS collateral does not prepay over the life of the CDO. However, in light of legislative developments, we have instituted a 40% prepayment assumption rate for those banks with assets greater than $15 billion for two years corresponding to the start of the phase-out period for Tier 1 capital treatment and, subsequently, an annual prepayment rate assumption of 2%. The 40% prepayment rate was the result of a detailed analysis of the terms of those TruPS issued by banks with assets in excess of $15 billion. Specifically, we looked to the contractual interest rate of these instruments (i.e. fixed rate or spread over LIBOR) and compared them to current debt market rates of the issuing institutions. The bulk of the TruPS within the CDOs were issued at rates inside of current market debt yield (thus making refinancing prohibitively expensive). For issuers that have made a public announcement of intent to redeem their outstanding TruPS, we assume an immediate prepayment. Additionally, we assume immediate prepayment for TruPS issued by banks with greater than $15 billion in assets and a fixed coupon of 7% or greater. The bulk of the issuances with coupons greater than 7% were issued at rates wider than current market debt yield (thus making refinancing certain). Similarly, for those TruPS issued by banks with assets between $2 billion and $15 billion and coupons greater than 7%, we assume a constant annual prepayment rate of 5%. This rate is meant to reflect the possibility that some mid-size banks with limited access to the capital markets may choose to refinance the relatively high cost debt despite the remaining positive capital treatment of their TruPS.

At present there is no prepayment rate being applied to insurance collateral. This is due to the de minimus rate of prepayment observed for insurance collateral. As stated above, the impact of a prepayment would be positive for insurance only CDOs. Additionally, unlike large banks which experienced a "taking away" of preferential capital treatment, insurance companies were never subject to such an adverse event and thus have no new incentive to prepay. There would be no increase in credit loss when adding a 1% prepayment assumption. However, there would be an increase in fair value of approximately one point.

For CDOs with only bank collateral, such as the ALESCO CDO, generally senior tranches experience increased value and no credit loss effect with increased prepayment assumptions, while mezzanine tranches typically experience increased credit loss when collateral prepayment assumptions are increased. Typically redemptions are completed by issuers with stronger credit and/or higher coupon paper (as higher coupon paper has a higher probability of redemption due to refinancing options). Issuers with stronger credit are more likely to continue making interest payments (less likely to default) and higher coupon paper accounts for higher interest proceeds available to pay tranches in the CDO. The mezzanine tranches benefit from these heightened interest proceeds over time and prepayments compromise the likelihood of those payments.

For CDOs with only insurance collateral, such as the PreTSL CDO, given the significant amounts of subordination and excellent asset coverage (due to the absence of material credit events), prepayments would have a positive effect on fair value for nearly all tranches and is unlikely to cause impairment. There would be no increase in credit loss when adding a 1% prepayment assumption. However, there would be an increase in fair value of approximately one and a half points.

Investment Maturities

The total amount of securities in an unrealized loss position for greater than 12 months is comprised of municipal, mortgage-backed, U.S. Government-sponsored enterprises, and other securities. Our management periodically evaluates each security available-for-sale in an unrealized loss position to determine if the impairment is temporary or other than temporary. The unrealized losses are due solely to interest rate changes and we have the ability and intent to hold all investment securities with identified impairments resulting from interest rate changes to the earlier of the forecasted recovery or the maturity of the underlying investment security. As of December 31, 2013, we did not have any investment securities that constituted 10% or more of the stockholders' equity of any third party issuer.

The following table summarizes the maturity schedule of our investment securities at their amortized cost and their weighted average yields at December 31, 2013.

(dollars in thousands)	1 year or Less		More than 1 year to 5 years		More than 5 years to 10 years		More than 10 years		Total
	Amortized Cost	Wtd. Avg. Yield	Amortized Cost	Wtd. Avg. Yield	Amortized Cost	Wtd. Avg. Yield	Amortized Cost	Wtd. Avg. Yield	Amortized Cost
Securities available for sale:									
U.S. Government-sponsored enterprises	$	%	$ 20,699	1.04 %	$ 10,556	4.67 %	$ 26,314	3.31 %	$ 57,569
Municipals		%	3,989	3.58 %	6,848	3.35 %	35,289	3.66 %	46,126
Mortgage- and asset-backed securities government-sponsored enterprises		%	823	4.97 %	29,252	2.80 %	44,983	2.59 %	75,058
Mortgage- and asset-backed securities private labeled		%	342	4.72 %		%	971	1.15 %	1,313
Other securities	2,000	2.16 %		%		%	3,025	1.55 %	5,025
Total securities available for sale	$ 2,000		$ 25,853		$ 46,656		$ 110,582		$ 185,091

Critical Accounting Policies and Estimates

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

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

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

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

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

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

Additionally, management reviews our uncertain tax positions annually under ASC Topic 740, *Income Taxes.* An uncertain tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount actually recognized is the largest amount of tax benefit that is greater than 50% likely to be recognized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. A significant amount of judgment is applied to determine both whether the tax position meets the “more likely than not” test as well as to determine the largest amount of tax benefit that is greater than 50% likely to be recognized. Differences between the position taken by management and that of taxing authorities could result in a reduction of a tax benefit or increase to tax liability, which could adversely affect future income tax expense.

Recent Accounting Pronouncements

Refer to Note 20 to the Company's consolidated financial statements.

Off-Balance Sheet Arrangements

In the ordinary course of business, the Company enters into financial transactions to extend credit and forms of commitments that may be considered off-balance sheet arrangements. We enter into forward contracts relating to our mortgage banking business to hedge the exposures we have from commitments to extend new residential mortgage loans to our customers and from our mortgage loans held for sale. At December 31, 2013 we had commitments to sell residential real estate loans of $30.63 million. These contracts mature in less than one year.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

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

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

The Company performed an evaluation under the supervision and with the participation of management, including the Company's principal executive and principal financial officer, to assess the effectiveness of the design and operation of our disclosure controls and procedures under the Exchange Act. Based on that evaluation, our management, including our principal executive and principal financial officer, concluded that our disclosure controls and procedures were effective as of December 31, 2013.

Management's Report on Internal Control Over Financial Reporting

This annual report does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the Company's registered public accounting firm because such reports are not required of smaller reporting companies.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting during the quarter ended December 31, 2013, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Certain information required by Part III is incorporated by reference from our definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 19, 2014 (the “Proxy Statement”), which we intend to file with the SEC pursuant to Regulation 14A within 120 days after December 31, 2013. Except for those portions specifically incorporated in this report by reference to our Proxy Statement, no other portions of the Proxy Statement are deemed to be filed as part of this report.

Item 10. Directors, Executive Officers and Corporate Governance

Directors

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

Executive Officers

Information regarding our executive officers is set forth in Item 1 of Part I of this annual report under the caption “Executive Officers of the Registrant.”

Code of Business Conduct and Ethics

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

Audit Committee

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

Section 16(a) Beneficial Ownership Reporting Compliance

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

Corporate Governance

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

Item 11. Executive Compensation

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

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

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

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

Incorporated into this item by reference is the information in the Proxy Statement regarding director independence under the heading “Proposal No. 1 Election of Directors” and the information regarding related person transactions under the heading “Corporate Governance.”

Item 14. Principal Accountant Fees and Services

Incorporated into this item by reference is the information in the Proxy Statement under the heading “Proposal No. 3 Ratification of Appointment of Independent Registered Public Accounting Firm.”

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

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

(b) Exhibits:

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

Exhibit No.	Description
3.1	Articles of Incorporation of First Internet Bancorp (incorporated by reference to Exhibit 3.1 to registration statement on Form 10 filed November 30, 2012)
3.2	Amended and Restated Bylaws of First Internet Bancorp as amended March 18, 2013 (incorporated by reference to Exhibit 3.2 annual report on Form 10-K for the year ended December 31, 2012)
4.1	Warrant to purchase common stock dated June 28, 2013 (incorporated by reference to Exhibit 4.1 to current report on Form 8-K filed July 5, 2013)
10.1	First Internet Bancorp 2013 Equity Incentive Plan (incorporated by reference to Appendix Z to the definitive proxy statement on Schedule 14A filed April 9, 2013)
10.2	Form Restricted Stock Agreement under 2013 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to current report on Form 8-K filed July 26, 2013)*
10.3	First Internet Bancorp Directors' Deferred Stock Plan (incorporated by reference to Exhibit 10.3 to registration statement on Form 10 filed November 30, 2012)*
10.4	Amended and Restated Employment Agreement among First Internet Bank of Indiana, First Internet Bancorp and David B. Becker dated March 28, 2013 (incorporated by reference to Exhibit 10.4 to annual report on Form 10-K for the year ended December 31, 2012)*
10.5	Change in Control Agreement between First Internet Bank of Indiana and Kay E. Whitaker dated January 14, 2013 (incorporated by reference to Exhibit 10.6 to annual report on Form 10-K for the year ended December 31, 2012)*
10.6	2013 Senior Management Bonus Plan (incorporated by reference to Exhibit 10.8 to annual report on Form 10-K for the year ended December 31, 2012)*
10.7	Contract for Purchase of Property between First Internet Bancorp and LHRET Ascension SV, LLC dated January 30, 2013 (incorporated by reference to Exhibit 10.10 to annual report on Form 10-K for the year ended December 31, 2012)
10.8	

	Offer and Contract for Purchase of Real Estate between First Internet Bancorp and St. Vincent Hospital and Health Care Center, Inc., accepted February 5, 2013 (incorporated by reference to Exhibit 10.11 to annual report on Form 10-K for the year ended December 31, 2012)
10.9	Lease dated as of March 6, 2013, by and between First Internet Bancorp and First Internet Bank of Indiana (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed March 11, 2013)
10.10	Subordinated Debenture Purchase Agreement with Community BanCapital, L.P., dated June 28, 2013 (incorporated by reference to Exhibit 10.1 to current report on Form 8-K filed July 5, 2013)
10.11	Subordinated Debenture dated June 28, 2013 (incorporated by reference to Exhibit 10.2 to current report on Form 8-K filed July 5, 2013)
21.1	List of Subsidiaries (incorporated by reference to Exhibit 21.1 to registration statement on Form 10 filed November 30, 2012)
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer

Exhibit No.	**Description**
32.1	Section 1350 Certifications
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 31, 2014.

FIRST INTERNET BANCORP

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 31, 2014.

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

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

/s/ John K. Keach, Jr.
John K. Keach, Jr., *Director*

/s/ David R. Lovejoy
David R. Lovejoy, *Director*

/s/ Ann D. Murtlow
Ann D. Murtlow, *Director*

/s/ Ralph R. Whitney, Jr.
Ralph R. Whitney, Jr., *Director*

/s/ Jerry Williams
Jerry Williams, *Director*

/s/ Jean L. Wojtowicz
Jean L. Wojtowicz, *Director*

First Internet Bancorp
December 31, 2013 and 2012

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of First Internet Bancorp as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the years then ended. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audits also included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Internet Bancorp as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ **BKD, LLP**

Indianapolis, Indiana
March 31, 2014

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

	December 31, 2013	2012
Assets		
Cash and due from banks	$ 2,578	$ 2,881
Interest-bearing demand deposits	51,112	29,632
Total cash and cash equivalents	53,690	32,513
Interest-bearing time deposits	2,500	
Securities available for sale - at fair value (amortized cost of $185,091 in 2013 and $153,896 in 2012)	181,409	156,693
Loans held for sale (includes $24,254 and $0 at fair value, respectively)	28,610	63,234
Loans receivable - net of allowance for loan losses of $5,426 and $5,833 at December 31, 2013 and 2012, respectively	495,727	352,328
Accrued interest receivable	2,904	2,196
Federal Home Loan Bank of Indianapolis stock	2,943	2,943
Cash surrender value of bank-owned life insurance	11,935	11,539
Premises and equipment, net	7,134	793
Goodwill	4,687	4,687
Other real estate owned	4,381	3,666
Accrued income and other assets	6,422	5,775
Total assets	$ 802,342	$ 636,367
Liabilities and Shareholders' Equity		
Liabilities		
Non-interest bearing deposits	$ 19,386	$ 13,187
Interest-bearing deposits	653,709	517,504
Total deposits	673,095	530,691
Advances from Federal Home Loan Bank	31,793	40,686
Subordinated debt	2,789	
Accrued interest payable	102	120
Accrued expenses and other liabilities	3,655	3,520
Total liabilities	711,434	575,017
Shareholders' Equity		
Preferred stock, no par value; 4,913,779 shares authorized; issued and outstanding - none		
Voting common stock, no par value; 45,000,000 shares authorized; 4,448,326 and 2,815,094 shares issued and outstanding, respectively	71,378	41,508
Nonvoting common stock, no par value; 86,221 shares authorized; issued and outstanding - none		
Retained earnings	21,902	18,024
Accumulated other comprehensive income (loss)	(2,372)	1,818
Total shareholders' equity	90,908	61,350

Total liabilities and shareholders' equity	$	802,342	$	636,367

See Notes to Consolidated Financial Statements

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

	Year Ended December 31, 2013	2012
Interest Income		
Loans	$ 20,843	$ 19,560
Securities taxable	3,082	3,133
Securities non-taxable	1,611	1,681
Total interest income	25,536	24,374
Interest Expense		
Deposits	6,861	7,172
Other borrowed funds	1,227	1,360
Total interest expense	8,088	8,532
Net Interest Income	17,448	15,842
Provision for Loan Losses	324	2,852
Net Interest Income After Provision for Loan Losses	17,124	12,990
Noninterest Income		
Service charges and fees	687	685
Mortgage banking activities	8,682	10,647
Other-than-temporary impairment		
Total loss related to other than temporarily impaired securities	(129)	(1,452)
Portion of loss recognized in other comprehensive income (loss)	80	1,200
Other-than-temporary impairment loss recognized in net income	(49)	(252)
Gain (loss) on sale of securities	(63)	48
Loss on asset disposals	(146)	(93)
Other	406	388
Total noninterest income	9,517	11,423
Noninterest Expense		
Salaries and employee benefits	10,458	8,529
Marketing, advertising, and promotion	1,870	1,362
Consulting and professional fees	2,267	1,422
Data processing	916	897
Loan expenses	800	1,097
Premises and equipment	1,923	1,711
Deposit insurance premium	451	455
Other	1,797	1,140
Total noninterest expense	20,482	16,613
Income Before Income Taxes	6,159	7,800
Income Tax Provision	1,566	2,194
Net Income	$ 4,593	$ 5,606
Income Per Share of Common Stock		
Basic	$ 1.51	$ 1.95
Diluted	1.51	1.95
Weighted-Average Number of Common Shares Outstanding		
Basic	3,041,666	2,869,365
Diluted	3,050,001	2,869,365

Dividends Declared Per Share	$ 0.2200	$ 0.1667

See Notes to Consolidated Financial Statements

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

	Year Ended December 31, 2013	2012
Net income	$ 4,593	$ 5,606
Other comprehensive income (loss)		
Net unrealized holding gains (losses) on securities available for sale	(6,462)	2,161
Reclassification adjustment for (gains) losses realized	63	(48)
Net unrealized holding losses on securities available for sale for which an other-than-temporary impairment has been recognized in income	(129)	(1,452)
Reclassification adjustment for other-than-temporary impairment loss recognized in income	49	252
Other comprehensive income (loss) before tax	(6,479)	913
Income tax provision (benefit)	(2,289)	315
Other comprehensive income (loss) - net of tax	(4,190)	598
Comprehensive income	$ 403	$ 6,204

See Notes to Consolidated Financial Statements

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

	Voting and Nonvoting Common Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
Balance, January 1, 2012	$ 41,306	$ 1,220	$ 12,897	$ 55,423
Net income			5,606	5,606
Other comprehensive income		598		598
Cash dividends declared ($0.1667 per share)			(479)	(479)
Recognition of the fair value of share-based compensation	107			107
Issuance of directors' deferred stock rights	95			95
Balance, December 31, 2012	41,508	1,818	18,024	61,350
Net income			4,593	4,593
Other comprehensive loss		(4,190)		(4,190)
Cash dividends declared ($0.2200 per share)			(715)	(715)
Recognition of the fair value of share-based compensation	387			387
Issuance of common stock warrants	255			