First Internet Bancorp
Form 10-Q
August 03, 2017

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

FORM 10-Q

(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period ended June 30, 2017
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From ________ to ________.

Commission File Number 001-35750

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

Indiana	20-3489991
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
11201 USA Parkway Fishers, IN	46037
(Address of Principal Executive Offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company (as defined in Rule 12b-2 of the Exchange Act).

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

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

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

As of July 28, 2017, the registrant had 6,513,577 shares of common stock issued and outstanding.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of the federal securities laws. These statements are not historical facts, but rather statements based on the current expectations of First Internet Bancorp and its consolidated subsidiaries (“we,” “our,” “us” or the “Company”) regarding its business strategies, intended results and future performance. Forward-looking statements are generally preceded by terms such as “expects,” “believes,” “anticipates,” “intends,” “plan,” and similar expressions. Such statements are subject to certain risks and uncertainties including: general economic conditions, whether national or regional, and conditions in the lending markets in which we participate that may have an adverse effect on the demand for our loans and other products; our credit quality and related levels of nonperforming assets and loan losses, and the value and salability of the real estate that we own or that is the collateral for our loans; failures of or interruptions in the communication and information systems on which we rely to conduct our business that could reduce our revenues, increase our costs or lead to disruptions in our business; our plans to grow our commercial real estate and commercial and industrial loan portfolios which may carry greater risks of non-payment or other unfavorable consequences; our dependence on capital distributions from First Internet Bank of Indiana (the “Bank”); results of examinations of us by our regulators, including the possibility that our regulators may, among other things, require us to increase our allowance for loan losses or to write-down assets; changing bank regulatory conditions, policies or programs, whether arising as new legislation or regulatory initiatives, that could lead to restrictions on activities of banks generally, or the Bank in particular; more restrictive regulatory capital requirements; increased costs, including deposit insurance premiums; regulation or prohibition of certain income producing activities or changes in the secondary market for loans and other products; changes in market rates and prices that may adversely impact the value of securities, loans, deposits and other financial instruments and the interest rate sensitivity of our balance sheet; our liquidity requirements being adversely affected by changes in our assets and liabilities; the effect of legislative or regulatory developments, including changes in laws concerning taxes, banking, securities, insurance and other aspects of the financial services industry; competitive factors among financial services organizations, including product and pricing pressures and our ability to attract, develop and retain qualified banking professionals; the growth and profitability of noninterest or fee income being less than expected; the loss of any key members of senior management; the effect of changes in accounting policies and practices, as may be adopted by the Financial Accounting Standards Board (the “FASB”), the Securities and Exchange Commission (the “SEC”), the Public Company Accounting Oversight Board (the “PCAOB”) and other regulatory agencies; and the effect of fiscal and governmental policies of the United States federal government. Additional factors that may affect our results include those discussed in our most recent Annual Report on Form 10-K under the heading “Risk Factors” and in other reports filed with the SEC. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The factors listed above could affect our financial performance and could cause our actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

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

PART I

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2017 (Unaudited)	December 31, 2016
Assets		
Cash and due from banks	$5,425	$2,282
Interest-bearing deposits	60,818	37,170
Total cash and cash equivalents	66,243	39,452
Interest-bearing time deposits	—	250
Securities available-for-sale, at fair value (amortized cost of $499,089 and $471,070 in 2017 and 2016, respectively)	489,775	456,700
Securities held-to-maturity, at amortized cost (fair value of $19,004 and $16,197 in 2017 and 2016, respectively)	19,215	16,671
Loans held-for-sale (includes $16,996 and $27,101 at fair value in 2017 and 2016, respectively)	27,335	27,101
Loans	1,698,421	1,250,789
Allowance for loan losses	(13,194)	(10,981)
Net loans	1,685,227	1,239,808
Accrued interest receivable	8,479	6,708
Federal Home Loan Bank of Indianapolis stock	19,575	8,910
Cash surrender value of bank-owned life insurance	34,602	24,195
Premises and equipment, net	9,667	10,044
Goodwill	4,687	4,687
Other real estate owned	4,488	4,533
Accrued income and other assets	11,978	15,276
Total assets	$2,381,271	$1,854,335
Liabilities and Shareholders' Equity		
Liabilities		
Noninterest-bearing deposits	$36,636	$31,166
Interest-bearing deposits	1,695,476	1,431,701
Total deposits	1,732,112	1,462,867
Advances from Federal Home Loan Bank	435,183	189,981
Subordinated debt, net of unamortized discounts and debt issuance costs of $1,348 and $1,422 in 2017 and 2016, respectively	36,652	36,578
Accrued interest payable	210	112
Accrued expenses and other liabilities	13,284	10,855
Total liabilities	2,217,441	1,700,393
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, no par value; 4,913,779 shares authorized; issued and outstanding - none	—	—
Voting common stock, no par value; 45,000,000 shares authorized; 6,513,577 and 6,478,050 shares issued and outstanding in 2017 and 2016, respectively	119,883	119,506
	—	—

Nonvoting common stock, no par value; 86,221 shares authorized; issued and outstanding - none		
Retained earnings	49,738	43,704
Accumulated other comprehensive loss	(5,791)	(9,268)
Total shareholders' equity	163,830	153,942
Total liabilities and shareholders' equity	$2,381,271	$1,854,335

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest Income				
Loans	$16,416	$ 11,661	$30,572	$ 22,850
Securities – taxable	2,566	1,747	4,933	2,916
Securities – non-taxable	696	368	1,393	533
Other earning assets	297	195	467	365
Total interest income	19,975	13,971	37,365	26,664
Interest Expense				
Deposits	5,324	3,930	10,023	6,818
Other borrowed funds	1,677	735	2,911	1,399
Total interest expense	7,001	4,665	12,934	8,217
Net Interest Income	12,974	9,306	24,431	18,447
Provision for Loan Losses	1,322	924	2,357	1,870
Net Interest Income After Provision for Loan Losses	11,652	8,382	22,074	16,577
Noninterest Income				
Service charges and fees	220	215	431	415
Mortgage banking activities	2,155	3,295	3,771	5,549
Gain on sale of securities	—	177	—	177
Other	361	61	665	147
Total noninterest income	2,736	3,748	4,867	6,288
Noninterest Expense				
Salaries and employee benefits	5,193	4,329	10,266	8,227
Marketing, advertising and promotion	544	434	1,062	898
Consulting and professional services	764	895	1,577	1,533
Data processing	245	275	482	549
Loan expenses	248	200	462	384
Premises and equipment	1,025	963	1,978	1,761
Deposit insurance premium	300	215	615	395
Other	604	564	1,179	1,133
Total noninterest expense	8,923	7,875	17,621	14,880
Income Before Income Taxes	5,465	4,255	9,320	7,985
Income Tax Provision	1,464	1,421	2,487	2,719
Net Income	$4,001	$ 2,834	$6,833	$ 5,266
Income Per Share of Common Stock				
Basic	$0.61	$ 0.57	$1.04	$ 1.11
Diluted	$0.61	$ 0.57	$1.04	$ 1.10
Weighted-Average Number of Common Shares Outstanding				
Basic	6,583,515	4,972,759	6,565,760	4,757,243
Diluted	6,597,991	4,992,025	6,599,681	4,782,700
Dividends Declared Per Share	$0.06	$ 0.06	$0.12	$ 0.12

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$4,001	$2,834	$6,833	$5,266
Other comprehensive income				
Net unrealized holding gains on securities available-for-sale recorded within other comprehensive income before income tax	3,991	3,917	5,056	5,791
Reclassification adjustment for gains realized	—	(177)	—	(177)
Other comprehensive income before income tax	3,991	3,740	5,056	5,614
Income tax provision	1,507	1,331	1,579	1,998
Other comprehensive income	2,484	2,409	3,477	3,616
Comprehensive income	$6,485	$5,243	$10,310	$8,882

See Notes to Condensed Consolidated Financial Statements

First Internet Bancorp
Condensed Consolidated Statement of Shareholders' Equity - Unaudited
Six Months Ended June 30, 2017
(Amounts in thousands except per share data)

	Voting and Nonvoting Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance, January 1, 2017	$ 119,506	$ 43,704	$ (9,268)	$ 153,942
Net income	—	6,833	—	6,833
Other comprehensive income	—	—	3,477	3,477
Dividends declared ($0.12 per share)	—	(799)	—	(799)
Recognition of the fair value of share-based compensation	532	—	—	532
Deferred stock rights and restricted stock units issued in lieu of cash dividends payable on outstanding deferred stock rights and restricted stock units	18	—	—	18
Common stock redeemed for the net settlement of share-based awards	(173)	—	—	(173)
Balance, June 30, 2017	$ 119,883	$ 49,738	$ (5,791)	$ 163,830

See Notes to Condensed Consolidated Financial Statements

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

	Six Months Ended June 30,	
	2017	2016
Operating Activities		
Net income	$6,833	$5,266
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,468	1,468
Increase in cash surrender value of bank-owned life insurance	(407)	(205)
Provision for loan losses	2,357	1,870
Share-based compensation expense	532	358
Gain from sale of available-for-sale securities	—	(177)
Loans originated for sale	(195,126)	(259,095)
Proceeds from sale of loans	198,840	256,592
Gain on loans sold	(3,423)	(4,496)
Increase in fair value of loans held-for-sale	(525)	(986)
Loss (gain) on derivatives	177	(67)
Net change in accrued income and other assets	(214)	(3,942)
Net change in accrued expenses and other liabilities	887	1,485
Net cash provided by (used in) operating activities	12,399	(1,929)
Investing Activities		
Net loan activity, excluding purchases	(425,497)	(136,643)
Proceeds from sale of other real estate owned	30	—
Net change in interest-bearing time deposits	250	750
Maturities and calls of securities available-for-sale	36,658	16,303
Proceeds from sale of securities available-for-sale	—	49,430
Purchase of securities available-for-sale	(64,677)	(272,129)
Purchase of securities held-to-maturity	(2,550)	—
Purchase of Federal Home Loan Bank of Indianapolis stock	(10,665)	—
Purchase of bank-owned life insurance	(10,000)	—
Purchase of premises and equipment	(369)	(1,653)
Loans purchased	(22,279)	(21,325)
Net cash used in investing activities	(499,099)	(365,267)
Financing Activities		
Net increase in deposits	269,245	432,879
Cash dividends paid	(776)	(538)
Proceeds from advances from Federal Home Loan Bank	387,000	40,000
Repayment of advances from Federal Home Loan Bank	(141,805)	(83,000)
Net proceeds from common stock issuance	—	22,754
Other, net	(173)	(43)
Net cash provided by financing activities	513,491	412,052
Net Increase in Cash and Cash Equivalents	26,791	44,856
Cash and Cash Equivalents, Beginning of Period	39,452	25,152
Cash and Cash Equivalents, End of Period	$66,243	$70,008
Supplemental Disclosures		
Cash paid during the period for interest	$12,836	$8,196
Cash paid during the period for taxes	81	2,911

Cash dividends declared, paid in subsequent period	391	331
Securities purchased during the period, settled in subsequent period	1,635	8,705

See Notes to Condensed Consolidated Financial Statements

First Internet Bancorp
Notes to Condensed Consolidated Financial Statements – Unaudited
(Table amounts in thousands except share and per share data)

Note 1: Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial information and pursuant to the rules and regulations of the SEC. Accordingly, they do not include all of the information or footnotes necessary for a complete presentation of financial condition, results of operations, or cash flows in accordance with GAAP. In our opinion, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation have been included. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results expected for the year ending December 31, 2017 or any other period. The June 30, 2017 condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the First Internet Bancorp Annual Report on Form 10-K for the year ended December 31, 2016.

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

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

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

Certain reclassifications have been made to the 2016 financial statements to conform to the presentation of the 2017 financial statements. These reclassifications had no effect on net income.

Note 2: Earnings Per Share

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

The following is a reconciliation of the weighted-average common shares for the basic and diluted earnings per share computations for the three and six months ended June 30, 2017 and 2016.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Basic earnings per share				
Net income	$4,001	$ 2,834	$6,833	$ 5,266
Weighted-average common shares	6,583,514	4,972,759	6,565,760	4,757,243
Basic earnings per common share	$0.61	$ 0.57	$1.04	$ 1.11
Diluted earnings per share				
Net income	$4,001	$ 2,834	$6,833	$ 5,266
Weighted-average common shares	6,583,514	4,972,759	6,565,760	4,757,243
Dilutive effect of warrants	6,539	9,743	12,208	10,518
Dilutive effect of equity compensation	7,937	9,523	21,713	14,939
Weighted-average common and incremental shares	6,597,990	4,992,025	6,599,681	4,782,700
Diluted earnings per common share	$0.61	$ 0.57	$1.04	$ 1.10
Number of warrants excluded from the calculation of diluted earnings per share as the exercise prices were greater than the average market price of the Company's common stock during the period	—	—	—	—

Note 3: Securities

The following tables summarize securities available-for-sale and securities held-to-maturity as of June 30, 2017 and December 31, 2016.

	June 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale				
U.S. Government-sponsored agencies	$129,926	$364	$(608)	$129,682
Municipal securities	97,508	276	(2,713)	95,071
Mortgage-backed securities	231,591	54	(5,531)	226,114
Asset-backed securities	9,946	54	—	10,000
Corporate securities	27,118	14	(1,172)	25,960
Other securities	3,000	—	(52)	2,948
Total available-for-sale	$499,089	$762	$(10,076)	$489,775

	June 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held-to-maturity				
Municipal securities	$10,168	$25	$(346)	$9,847
Corporate securities	9,047	126	(16)	9,157
Total held-to-maturity	$19,215	$151	$(362)	$19,004

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	December 31, 2016			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Securities available-for-sale				
U.S. Government-sponsored agencies	$92,599	$167	$(870)	$91,896
Municipal securities	97,647	85	(5,846)	91,886
Mortgage-backed securities	238,354	—	(6,713)	231,641
Asset-backed securities	19,470	65	(1)	19,534
Corporate securities	20,000	—	(1,189)	18,811
Other securities	3,000	—	(68)	2,932
Total available-for-sale	$471,070	$317	$(14,687)	$456,700

	December 31, 2016			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Securities held-to-maturity				
Municipal securities	$10,171	$—	$(498)	$9,673
Corporate securities	6,500	24	—	6,524
Total held-to-maturity	$16,671	$24	$(498)	$16,197

The carrying value of securities at June 30, 2017 is shown below by their contractual maturity date. Actual maturities will differ because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale	
	Amortized	Fair
	Cost	Value
One to five years	$1,344	$1,316
Five to ten years	45,868	45,194
After ten years	207,340	204,203
	254,552	250,713
Mortgage-backed securities	231,591	226,114
Asset-backed securities	9,946	10,000
Other securities	3,000	2,948
Total	$499,089	$489,775

	Held-to-Maturity	
	Amortized	Fair
	Cost	Value
Five to ten years	$12,446	$12,431
After ten years	6,769	6,573
Total	$19,215	$19,004

There were no sales of available-for-sale securities that resulted in gross gains or gross losses during the three and six months ended June 30, 2017. Gross gains of $0.2 million and gross losses of $0.0 million resulted from sales of available-for-sale securities during the three and six months ended June 30, 2016.

Certain investments in debt securities are reported in the condensed consolidated financial statements at an amount less than their historical cost. The total fair value of these investments at June 30, 2017 and December 31, 2016 was

$386.4 million and $422.9 million, which was approximately 76% and 89%, respectively, of the Company's available-for-sale and held-to-maturity securities portfolios. These declines resulted primarily from fluctuations in market interest rates after purchase. Management believes the declines in fair value for these securities are temporary.

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

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

The unrealized losses on the Company’s investments in securities issued by U.S. Government-sponsored agencies, municipal organizations and corporate entities were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not likely that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2017.

Mortgage-Backed Securities

The unrealized losses on the Company’s investments in mortgage-backed securities were caused by interest rate changes. The Company expects to recover the amortized cost bases over the term of the securities. Because the Company does not intend to sell the investments and it is not likely that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2017.

Other Securities

The unrealized losses on the Company’s investments in other securities were caused by the investment in the Community Reinvestment Act Qualified Fund. Because the Company does not intend to sell the investment and it is not likely that the Company will be required to sell the investment before recovery of its amortized cost basis, the Company does not consider this investment to be other-than-temporarily impaired at June 30, 2017.

The following tables show the available-for-sale and held-to-maturity securities portfolios’ gross unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2017 and December 31, 2016.

	June 30, 2017					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available-for-sale						
U.S. Government-sponsored agencies	$54,696	$ (497)	$8,652	$ (111)	$63,348	$ (608)
Municipal securities	70,509	(2,573)	2,109	(140)	72,618	(2,713)
Mortgage-backed securities	191,761	(4,734)	22,075	(797)	213,836	(5,531)
Corporate securities	3,948	(65)	18,893	(1,107)	22,841	(1,172)
Other securities	2,948	(52)	—	—	2,948	(52)
Total	$323,862	$ (7,921)	$51,729	$ (2,155)	$375,591	$ (10,076)

	June 30, 2017					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities held-to-maturity						

Municipal securities	$ 8,269	$ (346)	$ —	$ —	$ 8,269	$ (346)
Corporate securities	2,531	(16)	—	—	2,531	(16)
Total	$ 10,800	$ (362)	$ —	$ —	$ 10,800	$ (362)

	December 31, 2016					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available-for-sale						
U.S. Government-sponsored agencies	$68,625	$(840)	$260	$(30)	$68,885	$(870)
Municipal securities	86,424	(5,846)	—	—	86,424	(5,846)
Mortgage-backed securities	231,641	(6,713)	—	—	231,641	(6,713)
Asset-backed securities	—	—	4,520	(1)	4,520	(1)
Corporate securities	—	—	18,811	(1,189)	18,811	(1,189)
Other securities	2,932	(68)	—	—	2,932	(68)
Total	$389,622	$(13,467)	$23,591	$(1,220)	$413,213	$(14,687)

	December 31, 2016					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities held-to-maturity						
Municipal securities	$9,673	$ (498)	$ —	$ —	$9,673	$ (498)
Total	$9,673	$ (498)	$ —	$ —	$9,673	$ (498)

There were no amounts reclassified from accumulated other comprehensive loss during the three and six months ended June 30, 2017. Amounts reclassified from accumulated other comprehensive loss and the affected line items in the consolidated statements of income during the three and six months ended June 30, 2016 were as follows:

Details About Accumulated Other Comprehensive Loss Components	Amounts Reclassified from Accumulated Other Comprehensive Loss for the		Affected Line Item in the Statements of Income
	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016	
Realized gains and losses on securities available-for-sale			
Gain realized in earnings	$ 177	$ 177	Gain on sale of securities
Total reclassified amount before tax	177	177	Income Before Income Taxes
Tax expense	60	60	Income Tax Provision
Total reclassifications out of accumulated other comprehensive loss	$ 117	$ 117	Net Income

Note 4: Loans

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

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

Categories of loans include:

	June 30, 2017	December 31, 2016
Commercial loans		
Commercial and industrial	$110,379	$102,437
Owner-occupied commercial real estate	66,952	57,668
Investor commercial real estate	10,062	13,181
Construction	45,931	53,291
Single tenant lease financing	747,790	606,568
Public finance	179,873	—
Total commercial loans	1,160,987	833,145
Consumer loans		
Residential mortgage	292,997	205,554
Home equity	33,312	35,036
Other consumer	208,602	173,449
Total consumer loans	534,911	414,039
Total commercial and consumer loans	1,695,898	1,247,184
Deferred loan origination costs and premiums and discounts on purchased loans	2,523	3,605
Total loans	1,698,421	1,250,789
Allowance for loan losses	(13,194)	(10,981)
Net loans	$1,685,227	$1,239,808

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

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

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

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

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

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

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

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

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

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

Allowance for Loan Losses Methodology

Company policy is designed to maintain an adequate allowance for loan losses ("ALLL"). The portfolio is segmented by loan type, and the required ALLL for types of performing homogeneous loans which do not have a specific reserve is determined by applying a factor based on average historical losses, adjusted for current economic factors and portfolio trends. Management believes the historical loss experience methodology is appropriate in the current economic environment as it captures loss rates that are comparable to the current period being analyzed. Management adds qualitative factors for observable trends, changes in internal practices, changes in delinquencies and impairments, and external factors. Observable factors include changes in the composition and size of portfolios, as well as loan terms or concentration levels. The Company evaluates the impact of internal changes such as management and staff experience levels or modification to loan underwriting processes. Delinquency trends are scrutinized for both volume and severity of past due, nonaccrual, or classified loans as well as any changes in the value of underlying collateral. Finally, the Company considers the effect of other external factors such as national, regional, and local economic and business conditions, as well as competitive, legal, and regulatory requirements. Loans that are considered to be impaired are evaluated to determine the need for a specific allowance by applying at least one of three methodologies: present value of future cash flows; fair value of collateral less costs to sell; or the loan's observable market price. All troubled debt restructurings ("TDR") are considered impaired loans. Loans evaluated for impairment are removed from other pools to prevent double-counting. Accounting Standards Codification ("ASC") Topic 310, Receivables, requires that impaired loans be measured based on the present value of expected future cash flows discounted at the loans' effective interest rates or the fair value of the underlying collateral less costs to sell and allows existing methods for recognizing interest income.

Provision for Loan Losses

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

Policy for Charging Off Loans

The Company's policy is to charge off a loan at any point in time when it no longer can be considered a bankable asset, meaning collectible within the parameters of policy. A secured loan is generally charged down to the estimated fair value of the collateral, less costs to sell, no later than when it is 120 days past due as to principal or interest. An unsecured loan generally is charged off no later than when it is 180 days past due as to principal or interest. A home improvement loan generally is charged off no later than when it is 90 days past due as to principal or interest. The following tables present changes in the balance of the ALLL during the three and six months ended June 30, 2017 and 2016.

	Three Months Ended June 30, 2017				
Allowance for loan losses:	Balance, Beginning of Period	Provision (Credit) Charged to Expense	Losses Charged Off	Recoveries	Balance, End of Period
Commercial and industrial	$ 1,323	$ 205	$ —	$ 25	$ 1,553

Owner-occupied commercial real estate	635	81	—	—	716
Investor commercial real estate	101	8	—	—	109
Construction	462	(67)	—	—	395
Single tenant lease financing	6,853	550	—	—	7,403
Public finance	142	220	—	—	362
Residential mortgage	904	85	—	2	991
Home equity	101	(38)	—	17	80
Other consumer	1,373	278	(170)	104	1,585
Total	$ 11,894	$ 1,322	$ (170)	$ 148	$ 13,194

Allowance for loan losses:	Six Months Ended June 30, 2017 Balance, Beginning of Period	Provision (Credit) Charged to Expense	Losses Charged Off	Recoveries	Balance, End of Period
Commercial and industrial	$1,352	$132	$—	$ 69	$1,553
Owner-occupied commercial real estate	582	134	—	—	716
Investor commercial real estate	168	(59)	—	—	109
Construction	544	(149)	—	—	395
Single tenant lease financing	6,248	1,155	—	—	7,403
Public finance	—	362	—	—	362
Residential mortgage	754	235	—	2	991
Home equity	102	(42)	—	20	80
Other consumer	1,231	589	(393)	158	1,585
Total	$10,981	$2,357	$(393)	$ 249	$13,194

Allowance for loan losses:	Three Months Ended June 30, 2016 Balance, Beginning of Period	Provision (Credit) Charged to Expense	Losses Charged Off	Recoveries	Balance, End of Period
Commercial and industrial	$1,383	$ 451	$—	$ —	$1,834
Owner-occupied commercial real estate	475	(14)	—	—	461
Investor commercial real estate	197	(26)	—	—	171
Construction	563	(8)	—	—	555
Single tenant lease financing	4,678	381	—	—	5,059
Residential mortgage	871	42	(134)	2	781
Home equity	120	30	(33)	4	121
Other consumer	933	68	(65)	98	1,034
Total	$9,220	$ 924	$(232)	$ 104	$10,016

Allowance for loan losses:	Six Months Ended June 30, 2016 Balance, Beginning of Period	Provision (Credit) Charged to Expense	Losses Charged Off	Recoveries	Balance, End of Period
Commercial and industrial	$1,367	$467	$—	$ —	$1,834
Owner-occupied commercial real estate	476	(15)	—	—	461
Investor commercial real estate	212	(41)	—	—	171
Construction	500	55	—	—	555
Single tenant lease financing	3,931	1,128	—	—	5,059
Residential mortgage	896	(8)	(134)	27	781
Home equity	125	23	(33)	6	121
Other consumer	844	261	(214)	143	1,034
Total	$8,351	$1,870	$(381)	$ 176	$10,016

The following tables present the recorded investment in loans based on portfolio segment and impairment method as of June 30, 2017, and December 31, 2016.

June 30, 2017	Loans			Allowance for Loan Losses		
	Ending Balance: Collectively Evaluated for Impairment	Ending Balance: Individually Evaluated for Impairment	Ending Balance	Ending Balance: Collectively Evaluated for Impairment	Ending Balance: Individually Evaluated for Impairment	Ending Balance
Commercial and industrial	$108,530	$ 1,849	$110,379	$1,508	$ 45	$1,553
Owner-occupied commercial real estate	66,952	—	66,952	716	—	716
Investor commercial real estate	10,062	—	10,062	109	—	109
Construction	45,931	—	45,931	395	—	395
Single tenant lease financing	747,790	—	747,790	7,403	—	7,403
Public finance	179,873	—	179,873	362	—	362
Residential mortgage	291,363	1,634	292,997	991	—	991
Home equity	33,312	—	33,312	80	—	80
Other consumer	208,510	92	208,602	1,585	—	1,585
Total	$1,692,323	$ 3,575	$1,695,898	$13,149	$ 45	$13,194

December 31, 2016	Loans			Allowance for Loan Losses		
	Ending Balance: Collectively Evaluated for Impairment	Ending Balance: Individually Evaluated for Impairment	Ending Balance	Ending Balance: Collectively Evaluated for Impairment	Ending Balance: Individually Evaluated for Impairment	Ending Balance
Commercial and industrial	$102,437	$ —	$102,437	$1,352	$ —	$1,352
Owner-occupied commercial real estate	57,668	—	57,668	582	—	582
Investor commercial real estate	13,181	—	13,181	168	—	168
Construction	53,291	—	53,291	544	—	544
Single tenant lease financing	606,568	—	606,568	6,248	—	6,248
Residential mortgage	203,842	1,712	205,554	754	—	754
Home equity	35,036	—	35,036	102	—	102
Other consumer	173,321	128	173,449	1,231	—	1,231
Total	$1,245,344	$ 1,840	$1,247,184	$10,981	$ —	$10,981

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

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

- "Special Mention" - Loans that possess some credit deficiency or potential weakness, which deserves close attention.

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

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

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

Nonaccrual Loans

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

The following tables present the credit risk profile of the Company's commercial and consumer loan portfolios based on rating category and payment activity as of June 30, 2017 and December 31, 2016.

	June 30, 2017			
	Pass	Special Mention	Substandard	Total
Commercial and industrial	$98,311	$10,200	$ 1,868	$110,379
Owner-occupied commercial real estate	62,517	4,426	9	66,952
Investor commercial real estate	10,062	—	—	10,062
Construction	45,931	—	—	45,931
Single tenant lease financing	741,835	5,955	—	747,790
Public finance	179,873	—	—	179,873
Total commercial loans	$1,138,529	$20,581	$ 1,877	$1,160,987

	June 30, 2017		
	Performing	Nonaccrual	Total
Residential mortgage	$291,788	$ 1,209	$292,997
Home equity	33,312	—	33,312
Other consumer	208,573	29	208,602
Total consumer loans	$533,673	$ 1,238	$534,911

	December 31, 2016			
	Pass	Special Mention	Substandard	Total
Commercial and industrial	$99,200	$ 2,746	$ 491	$102,437
Owner-occupied commercial real estate	57,657	—	11	57,668
Investor commercial real estate	13,181	—	—	13,181
Construction	53,291	—	—	53,291
Single tenant lease financing	605,190	1,378	—	606,568
Total commercial loans	$828,519	$ 4,124	$ 502	$833,145

	December 31, 2016		
	Performing	Nonaccrual	Total
Residential mortgage	$204,530	$ 1,024	$205,554
Home equity	35,036	—	35,036
Other consumer	173,390	59	173,449
Total consumer loans	$412,956	$ 1,083	$414,039

The following tables present the Company's loan portfolio delinquency analysis as of June 30, 2017 and December 31, 2016.

	June 30, 2017							
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Commercial and Consumer Loans	Non-accrual Loans	Total Loans 90 Days or More Past Due and Accruing
Commercial and industrial	$ 228	$ 13	$ 88	$ 329	$ 110,050	$ 110,379	$ 1,850	$ —
Owner-occupied commercial real estate	—	—	—	—	66,952	66,952	—	—
Investor commercial real estate	—	—	—	—	10,062	10,062	—	—
Construction	—	—	—	—	45,931	45,931	—	—
Single tenant lease financing	—	—	—	—	747,790	747,790	—	—
Public finance	—	—	—	—	179,873	179,873	—	—
Residential mortgage	—	—	1,518	1,518	291,479	292,997	1,209	341
Home equity	—	—	—	—	33,312	33,312	—	—
Other consumer	109	54	9	172	208,430	208,602	29	9
Total	$ 337	$ 67	$ 1,615	$ 2,019	$ 1,693,879	$ 1,695,898	$ 3,088	$ 350

	December 31, 2016							
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Commercial and Consumer Loans	Non-accrual Loans	Total Loans 90 Days or More Past Due and Accruing
Commercial and industrial	$ 27	$ —	$ —	$ 27	$ 102,410	$ 102,437	$ —	$ —
Owner-occupied commercial real estate	—	—	—	—	57,668	57,668	—	—
Investor commercial real estate	—	—	—	—	13,181	13,181	—	—
Construction	—	—	—	—	53,291	53,291	—	—
Single tenant lease financing	—	—	—	—	606,568	606,568	—	—
Residential mortgage	—	347	991	1,338	204,216	205,554	1,024	—
Home equity	—	—	—	—	35,036	35,036	—	—
Other consumer	173	91	25	289	173,160	173,449	59	—
Total	$ 200	$ 438	$ 1,016	$ 1,654	$ 1,245,530	$ 1,247,184	$ 1,083	$ —

Impaired Loans

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

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

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

The following table presents the Company’s impaired loans as of June 30, 2017 and December 31, 2016.

	June 30, 2017			December 31, 2016		
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans without a specific valuation allowance						
Commercial and industrial	$1,769	$ 1,769	$ —	$—	$ —	$ —
Residential mortgage	1,634	1,745	—	1,712	1,824	—
Other consumer	92	123	—	128	184	—
Total	3,495	3,637	—	1,840	2,008	—
Loans with a specific valuation allowance						
Commercial and industrial	80	80	45	—	—	—
Total	80	80	45	—	—	—
Total impaired loans	$3,575	$ 3,717	$ 45	$1,840	$ 2,008	$ —

The table below presents average balances and interest income recognized for impaired loans during the three and six months ended June 30, 2017 and June 30, 2016.

	Three Months Ended		Six Months Ended		Three Months Ended		Six Months Ended	
	June 30, 2017				June 30, 2016			
	Average Balance	Interest Income	Average Balance	Interest Income	Average Balance	Interest Income	Average Balance	Interest Income
Loans without a specific valuation allowance								
Commercial and industrial	$1,996	$ —	$1,265	$ —	$—	$ —	$—	$ —
Residential mortgage	1,636	—	1,664	—	1,489	1	1,278	4
Other consumer	105	—	123	—	138	2	147	4
Total	3,737	—	3,052	—	1,627	3	1,425	8
Loans with a specific valuation allowance								
Commercial and industrial	61	—	$44	$ —	1,179	—	$590	$ —
Total	61	—	44	—	1,179	—	590	—
Total impaired loans	$3,798	$ —	$3,096	$ —	$2,806	$ 3	$2,015	$ 8

The Company had no residential mortgage other real estate owned as of June 30, 2017 and had less than $0.1 million in residential mortgage other real estate owned as of December 31, 2016. There were $1.0 million of loans at June 30, 2017 and December 31, 2016, in the process of foreclosure.

Troubled Debt Restructurings (“TDRs”)

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

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

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

There were two commercial and industrial loans classified as new TDRs during the three and six months ended June 30, 2017 with a pre-modification and post-modification outstanding recorded investment of $1.8 million. The Company did not allocate a specific allowance for those loans as of June 30, 2017, nor has it committed to lend additional amounts. The 2017 modifications consisted of maturity date amendments and certain other term modifications. There were no loans classified as new TDRs during the three and six months ended June 30, 2016.

Note 5: Premises and Equipment

The following table summarizes premises and equipment at June 30, 2017 and December 31, 2016.

	June 30, 2017	December 31, 2016
Land	$2,500	$ 2,500
Building and improvements	5,666	5,441
Furniture and equipment	7,223	7,079
Less: accumulated depreciation	(5,722)	(4,976)
Total	$9,667	$ 10,044

Note 6: Goodwill

As of June 30, 2017 and December 31, 2016, the carrying amount of goodwill was $4.7 million. There have been no changes in the carrying amount of goodwill for the periods ended June 30, 2017 and December 31, 2016. Goodwill is tested for impairment on an annual basis as of August 31, or whenever events or changes in circumstances indicate the carrying amount of goodwill exceeds its implied fair value. No events or changes in circumstances have occurred since the August 31, 2016 annual impairment test that would suggest it was more likely than not goodwill impairment existed.

Note 7: Subordinated Debt

In June 2013, the Company issued a subordinated debenture (the "2021 Debenture") in the principal amount of $3.0 million. The 2021 Debenture bears a fixed interest rate of 8.00% per year, payable quarterly, and is scheduled to mature on June 28, 2021. The 2021 Debenture may be repaid, without penalty, at any time after June 28, 2016. The 2021 Debenture is intended to qualify as Tier 2 capital under regulatory guidelines.

In connection with the 2021 Debenture, the Company also issued a warrant to purchase up to 48,750 shares of common stock at an initial per share exercise price equal to $19.33. The warrant became exercisable on June 28, 2014. On May 4, 2017, the Company issued a net amount of 15,915 shares of our common stock pursuant to an exercise by the holder of a warrant to purchase 48,750 shares of our common stock at a price of $19.33 per share. The holder satisfied the exercise price by instructing the Company to withhold 32,835 of the shares of common stock in accordance with the warrant's cashless exercise feature.

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

In September 2016, the Company issued $25.0 million aggregate principal amount of 6.0% Fixed-to-Floating Rate Subordinated Notes due 2026 (the “2026 Notes”) in a public offering. The 2026 Notes initially bear a fixed interest rate of 6.00% per year to, but excluding September 30, 2021, and thereafter a floating rate equal to the then-current three-month LIBOR rate plus 485 basis points. All interest on the 2026 Notes is payable quarterly. The 2026 Notes are scheduled to mature on September 30, 2026. The 2026 Notes are unsecured subordinated obligations of the Company and may be repaid, without penalty, on any interest payment date on or after September 30, 2021. The 2026 Notes are intended to qualify as Tier 2 capital under regulatory guidelines.

The following table presents the principal balance and unamortized discount and debt issuance costs for the 2021 Debenture, the 2025 Note and the 2026 Notes as of June 30, 2017 and December 31, 2016.

	June 30, 2017		December 31, 2016	
	Principal	Unamortized Discount and Debt Issuance Costs	Principal	Unamortized Discount and Debt Issuance Costs
2021 Debenture	$3,000	$ —	$3,000	$ —
2025 Note	10,000	(198)	10,000	(210)
2026 Notes	25,000	(1,150)	25,000	(1,212)
Total	$38,000	$ (1,348)	$38,000	$ (1,422)

Note 8: Benefit Plans

Employment Agreement

The Company has entered into an employment agreement with its Chief Executive Officer that provides for the continuation of salary and certain benefits for a specified period of time under certain conditions. Under the terms of the agreement, these payments could occur in the event of a change in control of the Company, as defined in the agreement, along with other specific conditions.

2013 Equity Incentive Plan

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

The Company recorded $0.2 million and $0.5 million of share-based compensation expense for the three and six months ended June 30, 2017, respectively, related to awards made under the 2013 Plan. The Company recorded $0.2 million and $0.4 million of share-based compensation expense for the three and six months ended June 30, 2016, respectively, related to awards made under the 2013 Plan.

The following table summarizes the status of the 2013 Plan awards as of June 30, 2017, and activity for the six months ended June 30, 2017.

	Restricted Stock Units	Weighted-Average Grant Date Fair Value Per Share	Restricted Stock Awards	Weighted-Average Grant Date Fair Value Per Share	Deferred Stock Units	Weighted-Average Grant Date Fair Value Per Share

Nonvested at December 31, 2016	49,781	$	23.07	16,330	$	19.06	—	$ —
Granted	42,542		30.99	5,628		31.00	4	29.03
Vested	(19,835)		22.43	(15,817)		20.06	(4)	29.03
Nonvested at June 30, 2017	72,488	$	27.89	6,141	$	27.44	—	$ —

At June 30, 2017, the total unrecognized compensation cost related to nonvested awards was $1.8 million with a weighted-average expense recognition period of 2.2 years.

Directors Deferred Stock Plan

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

The following table summarizes the status of deferred stock rights related to the Directors Deferred Stock Plan for the six months ended June 30, 2017.

	Deferred Stock Rights
Outstanding, beginning of period	82,377
Granted	310
Exercised	—
Outstanding, end of period	82,687

All deferred stock rights granted during the 2017 period were additional rights issued in lieu of cash dividends payable on outstanding deferred stock rights.

Note 9: Fair Value of Financial Instruments

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

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

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

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

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

Available-for-Sale Securities

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

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

In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. Fair values are calculated using discounted cash flows. Discounted cash flows are calculated based off of the anticipated future cash flows updated to incorporate loss severities. Rating agency and industry research reports as well as default and deferral activity are reviewed and incorporated into the calculation. The Company did not own any securities classified within Level 3 of the hierarchy as of June 30, 2017 or December 31, 2016.

Loans Held-for-Sale (mandatory pricing agreements)

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

Forward Contracts

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

Interest Rate Lock Commitments

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

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying condensed consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2017 and December 31, 2016.

	June 30, 2017			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government-sponsored agencies	$129,682	$ —	$ 129,682	$ —
Municipal securities	95,071	—	95,071	—
Mortgage-backed securities	226,114	—	226,114	—
Asset-backed securities	10,000	—	10,000	—
Corporate securities	25,960	—	25,960	—
Other securities	2,948	2,948	—	—
Total available-for-sale securities	489,775	2,948	486,827	—
Loans held-for-sale (mandatory pricing agreements)	16,996	—	16,996	—
Forward contracts	219	219	—	—
IRLCs	652	—	—	652

	December 31, 2016			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government-sponsored agencies	$91,896	$ —	$ 91,896	$ —
Municipal securities	91,886	—	91,886	—
Mortgage-backed securities	231,641	—	231,641	—

Asset-backed securities	19,534	—	19,534	—
Corporate securities	18,811			