

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

☒ For the Fiscal Year Ended December 31, 2023.

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

☐ For the Transition Period From _____ to _____.

Commission File Number **001-35750**

First Internet Bancorp

(Exact Name of Registrant as Specified in its Charter)

Indiana

(State or other jurisdiction of
incorporation or organization)

20-3489991

(I.R.S. Employer
Identification No.)

8701 E. 116th Street

Fishers, Indiana

(Address of principal executive offices)

46038

(Zip Code)

(317) 532-7900

(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

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

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

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

Large accelerated filer ☐

Accelerated Filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

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

☐

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

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☒

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to §240.10D-1 (b). ☐

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

The aggregate market value of common stock held by non-affiliates of the registrant as of June 30, 2023, the last business day of the registrant’s most recently completed second fiscal quarter, was approximately \$284.3 million, based on the closing sale price for the registrant’s common stock on that date. For purposes of determining this number, all officers and directors of the registrant are considered to be affiliates of the registrant. This number is provided only for the purpose of this report and does not represent an admission by either the registrant or any such person as to the status of such person.

As of March 8, 2024, the registrant had 8,655,854 shares of common stock issued and outstanding.

Documents Incorporated By Reference

Portions of our definitive proxy statement for our 2024 annual meeting of shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

First Internet Bancorp
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Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws. These statements are not historical facts, but rather statements based on the current expectations of First Internet Bancorp and its consolidated subsidiaries (the “Company,” “we,” “our,” or “us”) regarding our business strategies, intended results and future performance, including, without limitation, statements concerning the financial condition, results of operations, trends in lending policies and loan programs, prospective business partnerships, objectives, future performance and business of the Company. Forward-looking statements are generally preceded by terms such as “anticipate,” “attempt,” “believe,” “can,” “continue,” “could,” “effort,” “estimate,” “expect,” “goal,” “intend,” “likely,” “may,” “objective,” “optimistic,” “pending,” “plan,” “position,” “potential,” “preliminary,” “remain,” “scale,” “should,” “will,” “would” or other similar expressions. Such statements are subject to certain risks and uncertainties including: our business and operations and the business and operations of our vendors and customers; general economic conditions, whether national or regional, and conditions in the lending markets in which we participate that may have an adverse effect on the demand for our loans and other products; our credit quality and related levels of nonperforming assets and loan losses, and the value and salability of the real estate that is the collateral for our loans; failures or breaches of or interruptions in the communication and information systems on which we rely to conduct our business that could reduce our revenues, increase our costs or lead to disruptions in our business; our 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 credit 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 Securities and Exchange Commission (the “SEC”), the Public Company Accounting Oversight Board and other regulatory agencies; and the effect of fiscal and governmental policies of the United States federal government. Additional factors that may affect our results include those discussed under the heading “Risk Factors” in this Annual Report on Form 10-K. 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. Business

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

Overview

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

The Bank has three wholly-owned subsidiaries: First Internet Public Finance Corp., an Indiana corporation that provides a range of public and municipal finance lending and leasing products to governmental entities throughout the United States and acquires securities issued by state and local governments and other municipalities; JKH Realty Services, LLC, a Delaware limited liability company that manages other real estate owned properties as needed; and SPF15, Inc., an Indiana corporation that owns real estate used primarily for the Bank’s principal office.

We offer a wide range of commercial, small business, consumer and municipal banking products and services. We conduct our consumer and small business deposit operations primarily through digital channels on a nationwide basis and have no traditional branch offices. Our consumer lending products are primarily originated on a nationwide basis through relationships with dealerships and financing partners.

Our commercial banking products and services are delivered through a relationship banking model or through strategic partnerships and include commercial and industrial (“C&I”), construction and investor commercial real estate, single tenant lease financing, public finance, healthcare finance, small business lending, franchise finance and commercial deposits and treasury management. Our C&I team provides credit solutions such as lines of credit, term loans, owner-occupied commercial real estate loans and corporate credit cards on a regional basis to commercial borrowers primarily in the Midwest and Southwest regions of the United States. We offer construction, investor commercial real estate loans and single tenant lease financing on a nationwide basis. Our public finance team provides a range of public and municipal lending and leasing products to government entities on a nationwide basis. Our healthcare finance team was established in conjunction with our strategic partnership with Provide, Inc. (formerly known as Lendeavor, Inc.), a San Francisco-based technology-enabled lender to healthcare practices, which provided lending on a nationwide basis for healthcare practice finance or acquisition, acquisition or refinancing of owner-occupied commercial real estate and equipment purchases. In the third quarter 2021, Provide was acquired by a super-regional financial institution. Subsequent to Provide being acquired, the acquiring institution has retained most, if not all, of Provide’s loan origination activity and our healthcare finance loan balances have declined. Our franchise finance business was established in July 2021 in conjunction with our business relationship with ApplePie Capital, a company that specializes in providing financing to franchisees in various industry segments. Our commercial deposits and treasury management team works with the other commercial teams to provide deposit products and treasury management services to our commercial and municipal lending customers as well as pursues commercial deposit opportunities in business segments where we have no credit relationships.

We believe that we differentiate ourselves from larger financial institutions by providing a full suite of services to emerging small businesses and entrepreneurs on a nationwide basis. We are one of the fastest-growing lenders in the Small Business Administration (“SBA”) 7(a) program, closing more than \$416.1 million in SBA 7(a) loans during the 2023 calendar year, and ranked as the 9th largest SBA 7(a) lender for the SBA’s 2023 fiscal year. We also offer a top-ranked small business checking account product to our country’s entrepreneurs. We continue to scale up this business with the goal of driving increased earnings and profitability in future periods.

We also offer payment, deposit, card and lending products and services through partnerships with financial technology companies and platforms (“fintechs”). With the rapid evolution of technology that enables consumers and small businesses to manage their finances digitally, fintechs are addressing a significantly growing marketplace. Fintechs have created robust digital offerings, unburdened by legacy technology architecture, to address growing customer expectations. Through

partnerships with selected fintechs, we believe our ability to win and retain consumer and small business relationships will be significantly enhanced. Furthermore, we believe partnering with select fintechs will allow us to further diversify our revenue sources, acquire lower-cost deposits and pursue additional asset generation capabilities.

As of December 31, 2023, the Company had consolidated assets of \$5.2 billion, consolidated deposits of \$4.1 billion and shareholders' equity of \$362.8 million.

Human Capital

As of December 31, 2023, we employed 290 people, 287 of which were full-time. Our team members have been, and continue to be, our most valuable assets, helping to create a strong workplace culture that recognizes the unique contributions and perspectives each individual brings to the organization.

We encourage our employees to "Imagine More." We seek the game-changers, innovators and dreamers – those who are driven to find a better way of doing things for customers and each other. We encourage community involvement and opportunities that support team members, both inside and outside the office. We may be a digital bank, but we strongly believe in the power of personal connection and collaboration, resulting in a relationship rich culture that enables us to live to our very best potential. Our focus on employees is evident in the number of "best work place" awards we have been honored with over the years.

We strive to maintain an inclusive and diverse work culture in which individual differences and experiences are valued and all employees have the opportunity to contribute and thrive. We believe that leveraging our employees' diverse perspectives and capabilities will enhance innovation, foster a collaborative work culture and enable us to better serve our customers and communities. With this vision in mind, the Company's diversity and inclusion strategy focuses on five organizational pillars: People, Partners, Philanthropy, Products and Processes. In 2021, we published our first Environmental, Social and Governance ("ESG") Report to highlight, among other things, our focus on and efforts to advance Diversity and Inclusion goals. In 2022, we provided a status update to our ESG Report, highlighting key initiatives and efforts. Our initiatives and efforts continued throughout 2023, as we continue to mandate Diversity, Equity & Inclusion ("DEI") training for executive leadership and all employees. The phased training program — including topics such as unconscious bias, sexual harassment, regulatory issues and the benefits of a more diverse workplace — is delivered both in-person and online. Ongoing quarterly sessions and annual refresher courses help reinforce the program's methods and maintain active awareness.

Meaningful training, an equitable hiring process, expanded hiring pools, and a long-term commitment to fostering a diverse workforce have all resulted in largely exceptional results over the past five years. In particular, when reviewing the Bank's employee population, representation of diverse individuals by race and ethnicity increased from 9% in 2019 to 17% in 2023. During that same 5 year time period, we increased our percentage of racially and ethnically diverse new hires by more than 22%. Similarly, we have created positive trends in gender diversity, increasing our percentage of women new hires by 6% to 57% of our total new hires and increasing our percentage of women promotions by 20% to 58% of all promotions.

To further foster inclusion as a norm, our organization promotes and supports the development of employee-led business resource groups, which currently include First Ladies, LIFT (a professional development group), and BELONG (a group engaged in celebrating and learning about our unique experiences, heritages, etc.). These groups magnify traditionally underrepresented voices. We also offer tuition reimbursement, a robust internal training program, and leadership training and coaching through a third party consultant to help employees advance their careers and perform competently and confidently. The tuition reimbursement program reimburses approved tuition costs, registration fees for classes, and costs of books and computer-based resources as required by class. The internal training program focuses on topics such as privacy, fair banking, skills-training and many industry specific topics and regulations. The leadership training program features curriculum designed to help leaders understand management duties essential to their role.

Community service is a foundational tenet. We commit time, talent and financial support to community initiatives that inspire passion among our team members and support the communities within which we live and work. We allow paid volunteer time and sponsor community initiatives such as Junior Achievement Biztown and Habitat for Humanity. Team members serve on non-profit and other Boards/committees, with organizations such as Indianapolis Neighborhood Housing Partnership (INHP), Indy Chamber, and the Indiana Department of Workforce Development, to assist in meeting the community's most pressing needs. The result is a sense of pride and increased engagement within the Bank that serves as a catalyst for the greater good.

Competition

The markets in which we compete to make loans, attract deposits and provide fee based financial services are highly competitive. For consumer banking activities, we compete with other digital banks and fintech companies, in addition to traditional banks, savings banks, credit unions, investment banks, insurance companies, securities brokerages and other financial institutions, as nearly all have some form of digital delivery for their consumer banking services.

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

Regulation and Supervision

The U.S. banking industry is highly regulated under federal and state law and this regulatory environment has a material effect on the operations and financial condition of the Company and its subsidiaries. As a result, the Company's growth and earnings performance may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory agencies, including the Indiana Department of Financial Institutions (the "DFI"), the Board of Governors of the Federal Reserve System (the "Federal Reserve"), the FDIC and the Consumer Financial Protection Bureau ("CFPB"). Furthermore, taxation laws administered by the Internal Revenue Service and state taxing authorities, accounting rules developed by the Financial Accounting Standards Board (the "FASB"), securities laws administered by the SEC and state securities authorities, and anti-money laundering laws enforced by the U.S. Department of the Treasury ("U.S. Treasury") also have an impact on the Company's business. This regulatory framework is intended for the protection of depositors, borrowers and other customers, as well as the FDIC deposit insurance funds and the U.S. banking system, rather than the Company's shareholders or creditors.

Banking statutes and regulations are subject to ongoing review and revision by federal and state legislatures and regulatory agencies. Notably, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), enacted in 2010 in response to the global financial crisis, imposed a number of new and expanded regulatory requirements on the banking industry, which in some cases have been subsequently modified. Future changes in laws, regulations or regulatory policies, including changes in the ways laws and regulations are interpreted or enforced, could affect us in significant and unpredictable ways that may have a material impact on our business.

Federal and state banking laws and regulations affect, among other things, the scope of the Company's business; the kinds and amounts of investments the Company and Bank may make; the fees and charges that may be imposed for bank products and services; required capital levels relative to assets; the nature and amount of collateral for loans; the ability to merge, consolidate, and acquire; dealings with the Company's and Bank's insiders and affiliates; and the Company's payment of dividends. The cost of compliance with these legal and regulatory requirements has increased over time and could increase further in the future in response to changing laws and regulations or regulatory expectations, or as the Company grows and passes certain asset size thresholds at which additional requirements begin to apply. The Dodd-Frank Act, for example, gives rise to a number of additional requirements as financial institutions pass \$10 billion in assets.

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

Following is a summary of the material elements of the supervisory and regulatory framework applicable to the Company and Bank. It does not describe all of the statutes, regulations, and regulatory policies that apply, and the descriptions in this summary are qualified in their entirety by reference to the particular statutory and regulatory provisions involved.

Holding Company Regulation

General. The Company is registered as a bank holding company under the Bank Holding Company Act of 1956 (the “BHCA”) and has elected to be a financial holding company. It is subject to regulation, supervision, examination and enforcement by the Federal Reserve. Under the BHCA, the Company is required to file with the Federal Reserve periodic reports of its operations and such additional information regarding the Company and Bank as the Federal Reserve may require. In addition, the Federal Reserve has the authority to issue orders to bank holding companies to cease and desist from unsafe or unsound banking practices and from violations of conditions imposed by, or violations of agreements with, the Federal Reserve. The Federal Reserve is also empowered 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.

Regulatory

Capital. Regulatory capital represents the net assets of a banking organization available to absorb losses. Banks and bank holding companies are generally required to hold more capital than other businesses that are not subject to regulation and supervision by the banking agencies, and this directly affects the Company’s earnings capabilities. While capital has historically been one of the key measures of the financial health of both bank holding companies and banks, its role became fundamentally more important in the wake of the global financial crisis, as banking regulators recognized that the amount and quality of capital held by banks prior to the crisis was insufficient to absorb losses during periods of severe stress. Certain provisions of the Dodd-Frank Act and Basel III, discussed below, establish capital standards for banks and bank holding companies that are meaningfully more stringent than those in place previously.

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

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

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

The Basel III Rule requires minimum capital ratios for bank holding companies as follows:

- A ratio of minimum Common Equity Tier 1 Capital equal to 4.50% of risk-weighted assets;
- A ratio of minimum Tier 1 Capital equal to 6.00% of risk-weighted assets;
- A continuation of the minimum required amount of Total Capital (Tier 1 plus Tier 2) at 8.00% of risk-weighted assets; and
- A minimum leverage ratio of Tier 1 Capital to total quarterly average assets equal to 4.00% in all circumstances.

In addition, institutions that seek the freedom to make capital distributions (including for dividends and repurchases of stock) and pay discretionary bonuses to executive officers without restriction must also maintain 2.50% in Common Equity Tier 1 Capital attributable to a capital conservation buffer. The purpose of the conservation buffer is to ensure that banking institutions maintain a buffer of capital that can be used to absorb losses during periods of financial and economic stress. Factoring in the conservation buffer increases the minimum ratios depicted above to 7.00% for Common Equity Tier 1 Capital, 8.50% for Tier 1 Capital and 10.50% for Total Capital.

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

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

- A Common Equity Tier 1 Capital ratio to risk-weighted assets of 6.50% or more;
- A ratio of Tier 1 Capital to total risk-weighted assets of 8.00% or more;
- A ratio of Total Capital to total risk-weighted assets of 10.00% or more; and
- A leverage ratio of Tier 1 Capital to total adjusted average quarterly assets of 5.00% or greater.

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

As of December 31, 2023, the Company had regulatory capital in excess of the Federal Reserve’s requirements and met the requirements to be well capitalized. The Company was also in compliance with the capital conservation buffer. As of December 31, 2023, the Bank was well capitalized, as defined by FDIC regulations.

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

Community Bank Leverage Ratio Framework. In response to industry complaints concerning the regulatory burdens imposed on community banks by certain aspects of the Basel III Rule, the U.S. Congress, as part of the 2018 Economic Growth, Regulatory Relief, and Consumer Protection Act, authorized an optional, simplified measure of capital adequacy, the

“Community Bank Leverage Ratio” (“CBLR”) framework, for qualifying community banking organizations like the Company with less than \$10 billion in total consolidated assets. The federal banking agencies jointly adopted a rulemaking effective January 1, 2020, that implemented this alternative approach to measuring capital. Qualifying institutions must have a leverage ratio greater than 9%, off-balance sheet exposures of 25% or less of total consolidated assets, and trading assets and liabilities of 5% or less of total consolidated assets. Banks that opt in to the rule are not required to calculate or report risk-based capital and are deemed to have met the well-capitalized ratio requirement. In response to the COVID-19 pandemic, the banking agencies temporarily lowered the qualifying leverage ratio to 8.00% in the second quarter of 2020, which then rose to 8.50% for calendar year 2021 and 9.00% thereafter. The Company has not opted in to the CBLR capital framework.

Activities, Acquisitions, and Changes in Control. The BHCA requires a bank holding company to obtain approval from the Federal Reserve before (i) acquiring or holding more than a 5% voting interest in any bank or bank holding company, (ii) acquiring all or substantially all of the assets of another bank or bank holding company or (iii) merging or consolidating with another bank holding company. Federal law also prohibits any person or company from acquiring “control” of an FDIC-insured depository institution or its holding company without prior notice to the appropriate federal bank regulator. “Control” is conclusively presumed to exist upon the acquisition of 25% or more of the outstanding voting securities of a bank or bank holding company, but may arise under certain circumstances between 10% and 24.99% ownership.

Bank mergers and acquisitions generally will require the approval of the regulatory authorities of each banking organization. In determining whether to approve a proposed bank acquisition, federal bank regulators will consider, among other factors, the effect of the acquisition on competition, public benefits expected to be generated by the acquisition, post-acquisition capital levels, and performance under the Community Reinvestment Act of 1977, as amended (the “CRA”). The federal banking regulators are also required to consider the effectiveness of the Bank Secrecy Act/anti-money laundering activities of the applicant. Federal regulatory policy relating to the approval of proposed mergers and acquisitions is currently under review. In July 2021, President Biden issued an Executive Order on Promoting Competition in the American Economy that, among other initiatives, calls upon the federal banking agencies to review their current merger approval practices under the BHCA and the Bank Merger Act, and adopt a plan for the revitalization of such practices. In February 2022, Acting FDIC Chairman Gruenberg announced that the agency’s priorities include a comprehensive review of the process of considering and evaluating bank mergers, something the FDIC indicated had not been done in 25 years.

Holding Company Dividends. The Company’s ability to pay dividends to shareholders will be impacted both by general corporate law considerations and policies of the Federal Reserve applicable to bank holding companies. It may also be impacted by the ability of the Bank to pay dividends to the Company, discussed under “Bank Regulation—Dividends” below. As an Indiana corporation, the Company is subject to the Indiana Business Corporation Law, as amended, which prohibits the Company from paying a dividend if, after giving effect to the dividend, the Company would not be able to pay its debts as they become due in the usual course of business, or if the Company’s total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the corporation were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the distribution.

The Federal Reserve has indicated that the board of directors of a bank holding company should eliminate, defer or significantly reduce dividends to shareholders if: (i) the company’s net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (ii) the prospective rate of earnings retention is inconsistent with the Company’s capital needs and overall current and prospective financial condition; or (iii) the company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. The Federal Reserve possesses enforcement powers to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes or regulations. Among those powers is the ability to restrict the payment of dividends. In addition, under the Basel III Rule, institutions that seek the freedom to pay dividends have to maintain 2.50% in Common Equity Tier 1 Capital attributable to the capital conservation buffer. See “Regulatory” section above.

Source of Strength. Under the Dodd-Frank Act, we are required to serve as a source of financial and managerial strength for the Bank and to commit resources to support it in circumstances where we might not otherwise do so, in the event of the financial distress of the Bank. This provision codified the longstanding policy of the Federal Reserve. In addition, any capital loans by a bank holding company to any of its depository subsidiaries are subordinate to the payment of deposits and to certain other indebtedness. In the event of a bank holding company’s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a depository subsidiary will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Employee Incentive Compensation. Under regulatory guidance applying to all banking organizations, incentive compensation policies must be consistent with safety and soundness principles. Under this guidance, banking organizations must review their compensation programs to ensure that they: (i) provide employees with incentives that appropriately balance

risk and reward and that do not encourage imprudent risk, (ii) are compatible with effective controls and risk management, and (iii) are supported by strong corporate governance, including active and effective oversight by the banking organization's board of directors. Monitoring methods and processes used by a banking organization should be commensurate with the size and complexity of the organization and its use of incentive compensation.

Bank Regulation

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

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

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

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

Due to its online-driven model and nationwide banking platform, the Bank has opted to operate under a CRA Strategic Plan, which sets forth certain guidelines the Bank must meet. The Bank is awaiting FDIC approval for its proposed CRA Strategic Plan to cover the time period of January 1, 2024 through December 31, 2027. The Bank's previous CRA Strategic Plan covered the time period of January 1, 2021 through December 31, 2023. The Bank received a "Satisfactory" CRA rating under that plan in its most recent CRA examination. Failure of an institution to receive at least a "Satisfactory" rating could inhibit such institution or its holding company from engaging in certain activities or pursuing acquisitions of other financial institutions.

Transactions with Affiliates. The authority of the Bank, like other FDIC-insured institutions, 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. We believe the Bank complied with these provisions during 2023.

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

Enforcement. The DFI and the FDIC share primary regulatory enforcement responsibility over the Bank and its institution-affiliated parties, including directors, officers and employees. This enforcement authority includes, among other things, the ability to appoint a conservator or receiver for the Bank, to assess civil money penalties, to issue cease and desist orders, to seek judicial enforcement of administrative orders and to remove directors and officers from office and bar them from further participation in banking. In general, these enforcement actions may be initiated in response to alleged violations of laws, regulations and administrative orders, as well as in response to alleged 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, including the requirement for the Bank to obtain the prior approval of the DFI before paying a dividend that, together with other dividends it has paid during a calendar year, would exceed the sum of its net income for the year to date combined with its retained net income for the previous two years. The ability of the Bank to pay dividends is further affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and it is generally prohibited from paying any dividends if, following payment thereof, it would be undercapitalized. Notwithstanding the availability of funds for dividends, the FDIC and the DFI may prohibit the payment of dividends by the Bank if either or both determine such payment would constitute an unsafe or unsound practice. In addition, under the Basel III Rule, institutions that seek the freedom to pay dividends have to maintain 2.5% in Common Equity Tier 1 Capital attributable to the capital conservation buffer.

Insurance of Deposit Accounts. The Bank is a member of the Deposit Insurance Fund (“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. Under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Liquidity. The Bank is required to maintain a sufficient amount of liquid assets to ensure its safe and sound operation. To fund its operations, the Bank historically has relied upon deposits, Federal Home Loan Bank of Indianapolis (“FHLB”) borrowings, Fed Funds lines with correspondent banks and brokered deposits. The FDIA and FDIC regulations limit the ability of banks to accept, renew, or roll over brokered deposits unless the institution is well capitalized. The FDIC may grant a waiver to permit a less than well capitalized bank to hold brokered deposits, but limitations on the rates paid on such deposits will apply, and the bank may also be required to pay a higher deposit insurance assessment on such deposits. The Bank believes it has sufficient liquidity to meet its funding obligations for at least the next twelve months. Additionally, as of December 31, 2023, the Bank had access to \$1.2 billion in unused borrowing capacity at the Federal Reserve and FHLB.

Federal Home Loan Bank System. The Bank is a member of the FHLB, which is one of the regional Federal Home Loan Banks comprising the Federal Home Loan Bank System. Each Federal Home Loan Bank serves as a central credit facility primarily for its member institutions. The Bank, as a member of the FHLB, is required to acquire and hold shares of FHLB capital stock. While the required percentage of stock ownership is subject to change by the FHLB, the Bank is following this requirement with an investment in FHLB stock at December 31, 2023 of \$28.4 million. Any advances from the FHLB must be secured by specified types of collateral, and long-term advances may be used for the purpose of providing funds to make residential mortgage or commercial loans and to purchase investments. Long-term advances may also be used to help alleviate interest rate risk for asset and liability management purposes. The Bank receives dividends on its FHLB stock.

Federal Reserve System. Although the Bank is not a member of the Federal Reserve System, it is subject to provisions of the Federal Reserve Act and the Federal Reserve’s regulations under which depository institutions may be required to maintain reserves against their deposit accounts and certain other liabilities. In March 2020, the Federal Reserve announced that the banking system had ample reserves and, as reserve requirements no longer played a significant role in this regime, it reduced all reserve tranches to zero percent, thereby freeing banks from the reserve maintenance requirement. This action permits the Bank to loan or invest funds that were previously unavailable. The Federal Reserve has indicated that it currently has no plans to reimpose reserve requirements but that it may impose such a requirement in the future if conditions warrant.

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, in conjunction with the implementation of various federal regulatory agency regulations, has caused financial institutions, such as the Bank, to adopt and implement additional policies or amend existing policies and procedures with respect to, among other things, anti-money laundering compliance, suspicious activity, currency transaction reporting, customer identity verification and customer risk analysis. Bank regulators regularly examine institutions for compliance with these obligations, and may impose “cease and desist” orders and civil money penalty sanctions on institutions determined to be in violation of these obligations.

In January 2021, the Anti-Money Laundering Act of 2020 (the “AMLA”), which amends the BSA, was enacted. The AMLA was intended to comprehensively reform and modernize U.S. anti-money laundering laws. Among other things, the AMLA attempted to codify a risk-based approach to anti-money laundering compliance for financial institutions; required the development of standards by the U.S. Treasury for evaluating technology and internal processes for BSA compliance; and expanded enforcement- and investigation-related authority, including a significant expansion in the available sanctions for certain BSA violations and enhanced whistleblower provisions permitting monetary awards to persons who provide information that leads to successful enforcement of certain violations. Many of the statutory provisions in the AMLA require additional rulemaking, reports and other measures, and the impact of the AMLA will depend on, among other things, rulemaking and implementation guidance.

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These sanctions, which are administered by the U.S. 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. Failure to comply with these sanctions can give rise to serious legal and reputational consequences.

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, Homeowners 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, the Service Members Civil Relief Act, the Expedited Funds Availability Act, the Electronic Fund Transfer Act, the Truth in Savings Act, the Right to Financial Privacy Act, laws relating to unfair, deceptive and abusive acts and practices, and various state laws such as usury laws, or laws which are counterparts and/or extensions of the foregoing federal laws. 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 as an independent agency within the Federal Reserve System. The CFPB has the exclusive authority to administer, enforce, and otherwise implement federal consumer financial laws, which includes the power to make rules, issue orders, and issue guidance governing the provision of consumer financial products and services. The CFPB also has a broad mandate to prohibit unfair or deceptive acts and practices and is specifically empowered to require certain disclosures to consumers and draft model disclosure forms. Failure to comply with consumer protection laws and regulations can subject financial institutions to enforcement actions, fines and other penalties. In recent years, state authorities have also increased their attention to the enforcement of consumer protection rules, and in some cases, states are permitted to adopt and enforce consumer protection laws and regulations that are stricter than those issued or enforced by the CFPB. The CFPB has exclusive federal consumer law supervisory authority and primary enforcement authority over insured depository institutions with assets totaling over \$10 billion. Authority for institutions with \$10 billion or less rests with the prudential regulator, and in the case of the Bank lies with the FDIC.

Residential Mortgage Restrictions. The Dodd-Frank Act initiated a number of significant residential mortgage lending reforms. These reforms include standards that mortgage lenders must consider before making a residential mortgage loan, including verifying a borrower’s ability to repay such mortgage loan. Borrowers are also allowed to assert violations of certain provisions of the Truth-in-Lending Act as a defense to foreclosure proceedings. 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. Mortgage lenders are required 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, mortgage originators are prohibited from receiving compensation based on the terms of residential mortgage loans and are subject to limitations on their ability to be compensated by others if compensation is received from a consumer.

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

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

Privacy. The GLBA requires financial institutions to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to nonaffiliated third parties. In general, the statute requires financial institutions to explain to consumers their policies and procedures regarding the disclosure of such nonpublic personal information and, except as otherwise required or permitted by law, financial institutions are prohibited from disclosing such information except as provided in their policies and procedures. The Bank is required to provide notice to its customers on an annual basis disclosing its policies and procedures on the sharing of nonpublic personal information. From time to time, Congress and state legislatures consider additional legislation relating to privacy and other aspects of consumer information that could have an impact on our business, financial condition or results of operations.

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

A second law called the California Privacy Rights Act (“CPRA”), which went into effect in 2023, expands the scope of the CCPA, imposes new restrictions on behavioral advertising, and establishes a new California Privacy Protection Agency which will enforce the law and issue regulations. Similar laws were enacted in Virginia and Colorado, and other states have considered and are actively considering legislation along the same lines. We will continue to monitor and assess the impact of these state laws, which may impose substantial penalties for violations, impose significant costs for investigation and compliance, allow private class-action litigation and carry significant potential liability for our business.

Cybersecurity. In 2015, federal regulators issued two related statements regarding cybersecurity. One statement indicates that financial institutions should design multiple layers of security controls to establish lines of defense and ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing digital-based services of the financial institution. The other statement indicates that a financial institution’s management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption, and maintenance of the institution’s operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and

address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. If we fail to observe the regulatory guidance, we could be subject to various regulatory sanctions, including financial penalties.

In November 2021, the federal banking agencies published a final rule establishing computer-security incident notification requirements that require a banking organization to notify its primary federal regulator of any “computer security incident” that rises to the level of a “notification incident” as soon as possible and no later than 36 hours after determining that such an incident has occurred. The rule also requires a bank service provider to notify each affected banking organization customer as soon as possible when the service provider determines it has experienced a computer security incident that has caused, or is reasonably likely to cause, a material service disruption or degradation for four or more hours.

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

Recently, the SEC has enacted laws requiring public companies to disclose material cybersecurity risks and incidents along with cybersecurity protections and governance processes. These SEC guidelines, and any other regulatory guidance, are in addition to notification and disclosure requirements under state and federal banking law and regulations. See Part I, Item 1C. Cybersecurity of this Annual Report on Form 10-K for additional information.

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

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

Climate-Related Risk Management and Regulation. In recent years, the federal banking agencies and the SEC have increased their focus on climate-related risks impacting the operation of banks, the communities they serve and the financial system as a whole. Proposals related to climate-related financial and other risks impacting banks are being considered at both the federal and state level. It is too early to predict to what extent legislative and regulatory proposals will impact the Company and the Bank, but we will continue to monitor these developments and the steps that will need to be taken to address any new requirements.

Additional Matters. The earnings of financial institutions are also affected by general economic conditions and prevailing interest rates, both domestic and foreign, and by the monetary and fiscal policies of the United States Government and its various agencies, particularly the Federal Reserve. The Federal Reserve regulates the supply of credit in order to influence general economic conditions, primarily through open market operations in United States Government obligations, varying the discount rate on financial institution borrowings, varying reserve requirements against financial institution deposits, and restricting certain borrowings by financial institutions and their subsidiaries. The monetary policies of the Federal Reserve have had a significant effect on the operating results of the Bank in the past and are expected to continue to do so in the future.

Additional legislation and administrative actions affecting the banking industry may be considered by the United States Congress, state legislatures and various regulatory agencies, including those referred to above. It cannot be predicted with certainty whether such legislation or administrative action will be enacted or the extent to which the banking industry, the Company or the Bank would be affected.

Available Information

The Company makes available its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all 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”), free of charge on its website at www.firstinternetbancorp.com as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the SEC. In addition, the SEC maintains an internet site at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. References to the Company’s website address in this Annual Report on Form 10-K are provided as a convenience only and are not incorporated by reference.

Item 1A. Risk Factors

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

Business, Strategic, and Reputational Risks

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

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

Economic conditions have affected and could continue to adversely affect our revenues and profits.

Our success depends, to a certain extent, upon favorable economic and political conditions, local and national, as well as governmental monetary policies. Conditions such as recession, unemployment, changes in interest rates, inflation, money supply, and other factors beyond the Company’s control may adversely affect deposit levels, costs, loan demand and/or asset quality and, therefore, our earnings. Further, any economic downturn could result in financial stress on our borrowers that would adversely affect consumer confidence, a reduction in general business activity and increased market volatility. The resulting economic pressure on consumers and businesses and the lack of confidence in the financial markets could adversely affect our business, financial condition, results of operations and stock price. Our ability to properly assess the creditworthiness of our customers and to estimate the losses inherent in our credit exposure would be made more complex by difficult or rapidly changing market and economic conditions. Accordingly, if market conditions worsen, we may experience increases in foreclosures, delinquencies, net charge-offs and customer bankruptcies, as well as more restricted access to funds.

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

Competition in the banking and financial services industry is strong. We compete with commercial banks, savings institutions, credit unions, finance companies, fintechs, mutual funds, insurance companies and securities brokerage and investment banking firms operating locally and nationwide, and may soon compete with entities granted “special purpose national bank” (“SPNB”) charters by the Office of the Comptroller of the Currency. Some of our competitors have greater name financial resources, 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.

Negative developments in the banking industry could adversely affect our current and future business operations and financial condition.

Bank failures and related negative media attention have caused significant market trading volatility among publicly traded bank and financial holding companies, particularly for regional and community banks. These developments have negatively impacted customer confidence in smaller banks, which could prompt customers to move their deposits to larger financial institutions. Further, competition for and costs of deposits has similarly increased, putting pressure on net interest margin. While we have taken actions to minimize the increase in our costs of funds, there is no guarantee that such actions will be successful or sufficient in the current or future market.

We also anticipate increased regulatory scrutiny – in the course of routine examinations and otherwise – and new regulations directed towards banks of similar size to the Bank designed to respond to recent negative developments in the banking industry and/or changing regulatory focus, all of which may increase our costs of doing business and reduce our profitability. Among other things, there may be increased focus by both regulators and investors on deposit composition, the level of uninsured deposits, brokered deposits, unrealized losses in securities portfolios, liquidity, CRE composition and concentration, capital, third party risk management and general oversight and control of the foregoing. The Bank could face increased scrutiny or be viewed as higher risk by regulators and/or the investor community due to changing regulatory focus and/or the failures of other financial institutions, which could negatively affect our future results of operations and financial condition.

Reputational risk and social factors may negatively affect us.

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

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

New lines of business, and new products and services, may result in exposure to new risks; and the value and earnings related to existing lines of business are subject to market conditions.

The Bank has introduced, and in the future, may introduce new products and services to differing markets either alone or in conjunction with third parties, including programs and products introduced as part of our fintech partnership initiatives. New lines of business, products or services could have a significant impact on the effectiveness of our system of internal controls or the controls of third parties and could reduce our revenues and potentially generate losses. There are material inherent risks and uncertainties associated with offering new products and services, especially when new markets are not fully developed or when the laws and regulations regarding a new product are not mature. New products and services, or entrance into new markets, are carefully scrutinized by regulatory agencies and may require substantial time, resources and capital, and profitability targets may not be achieved. Factors outside of our control, such as developing laws and regulations, regulatory orders, competitive product offerings and changes in commercial and consumer demand for products or services may also materially impact the successful launch and implementation of new products or services. Failure to manage these risks, or failure of any product or service offerings to be successful and profitable, could have a material adverse effect on our financial condition and results of operations.

Significant external events, including continued the spread or outbreak of a highly contagious disease, could adversely affect our business and results of operations.

We could experience other external events such as severe weather, natural disasters, acts of war, terrorism or widespread public health issues, such as the COVID-19 pandemic or another highly contagious or infectious disease, that could impair the ability of our customers to repay outstanding loans; impair the value of collateral, if any, securing outstanding loans; negatively impact our deposit base, loan originations or general demand for our services; cause significant property damage; result in loss of revenue or cause us to incur additional expenses or losses. We could also be adversely affected if key personnel

or a significant number of employees were to become unavailable due to external events affecting the places they live. Although we have business continuity plans and other safeguards in place, there is no assurance that such plans and safeguards will completely mitigate the adverse impacts of any significant external event. The occurrence or continuation of any such event could materially adversely impact our business, our ability to provide our services, demand for our services, asset quality, financial condition and results of operations.

Anti-takeover provisions could negatively impact our shareholders.

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

Although these provisions do not preclude a takeover, they may have the effect of discouraging, delaying or deferring a tender offer or takeover attempt that a shareholder might consider in his or her best interest, including those attempts that might result in a premium over the market price of our common stock. Such provisions will also render the removal of the Board of Directors and of management more difficult and, therefore, may serve to perpetuate current management. These provisions could potentially adversely affect the market price of our common stock.

Credit Risks

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

Our commercial loans totaled \$3.0 billion, or 78.3% of our total loan portfolio as of December 31, 2023. These loans generally involve higher credit risks than residential real estate loans and are dependent upon our lenders and service providers maintaining close relationships with the borrowers. Payments on these loans are often dependent upon the successful operation and management of the underlying business or assets, and repayment of such loans may be influenced to a great extent by conditions in the market or the economy. Commercial loans typically involve larger loan balances than residential real estate loans and could lead to concentration risks within our commercial loan portfolio. In addition, our C&I, healthcare finance, franchise finance and small business loans have primarily been extended to small-to medium-sized businesses that generally have fewer financial resources in terms of capital or borrowing capacity than larger entities. Our failure to manage this commercial loan growth and the related risks could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

At December 31, 2023, approximately 45.6% of our loans held for investment portfolio was comprised of commercial, residential mortgage and home equity loans with real estate as the primary component of collateral. Our real estate lending activities, and our exposure to fluctuations in real estate collateral values, are significant and may increase as our assets increase. The market value of real estate can fluctuate significantly in a relatively short period of time as a result of market conditions in the geographic area in which the real estate is located; in response to factors such as economic downturns and changes in the economic health of industries heavily concentrated in a particular area; and in response to changes in market interest rates, which influence capitalization rates used to value revenue-generating commercial real estate. If the value of real estate serving as collateral for our loans declines materially, a significant part of our loan portfolio could become under-collateralized and losses incurred upon borrower defaults would increase. Conditions in certain segments of the real estate industry, including homebuilding, lot development and mortgage lending, may have an effect on values of real estate pledged as collateral for our loans. The inability of purchasers of real estate, including residential real estate, to obtain financing may weaken the financial condition of our borrowers who are dependent on the sale or refinancing of property to repay their loans. Changes in the economic health of certain industries can have a significant impact on other sectors or industries which are directly or indirectly associated with those industries, and may impact the value of real estate in areas where such industries are concentrated.

If our allowance for credit losses is not sufficient to cover actual credit losses, our earnings could decrease.

We maintain an allowance for credit losses (“ACL”) on loans and held-to-maturity debt securities. The ACL represents the Bank’s best estimate of probable losses within the existing portfolio of loans and held-to-maturity debt securities. Additionally, related to off-balance-sheet credit exposures, we maintain a liability reserve account reported as an other liability in our balance sheet. The amount of each allowance account represents management’s best estimate of current expected credit losses on these financial instruments considering available information, from internal and external sources, relevant to assessing exposure to credit loss over the contractual term of the instrument. Relevant available information includes historical credit loss experience, current conditions and reasonable and supportable forecasts. As a result, the determination of the appropriate level of the ACL inherently involves a high degree of subjectivity and requires us to make significant estimates related to current and expected future credit risks and trends, all of which may undergo material changes. Continuing deterioration in economic conditions affecting borrowers; new information regarding existing loans and loan commitments; and identification of additional problem loans, ratings down-grades and other factors, both within and outside of our control, may require an increase in the ACL. In addition, if any charge-offs related to loans or off-balance sheet credit exposures in future periods exceed our ACL or reserve for off-balance sheet credit exposures, we will need to recognize additional provision for credit losses. Material additions to the ACL would decrease our net income and may have a material adverse effect on our financial condition, results of operations and capital.

Market, Interest Rate, and Liquidity Risks

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

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 we would be required to record a write-down of the investment and a corresponding charge to our earnings.

Changes in interest rates could adversely affect the Company’s results of operations and financial condition.

The Company’s earnings depend substantially on the Company’s interest rate spread, which is the difference between (i) the rates the Bank earns on loans, securities, and other earning assets and (ii) the interest rates the Bank pays on deposits and other borrowings, and its costs of capital. These rates are highly sensitive to many factors beyond the Company’s control, including general economic conditions and the policies of various governmental and regulatory authorities. If market interest rates continue to rise, especially at the pace they did in 2022 and 2023, the Company will continue to face competitive pressure to increase the rates the Bank pays on deposits, which could negatively affect net interest margin. In addition, the interest rate on the Company’s 6.0% Fixed-to-Floating Rate Subordinated Notes due 2029 (the “2029 Notes”) will change from 6.0% to three-month term SOFR plus 4.376% on June 30, 2024 (a total interest rate of 9.74% based on three-month term SOFR as of January 31, 2024), and the interest rates on the Company’s other subordinated notes are scheduled to change in 2025 and 2026, respectively. These changes could result in a decrease of net interest income. If market interest rates decline, the Bank could

experience fixed-rate loan prepayments and higher investment portfolio cash flows, resulting in a lower yield on earning assets. Earnings can also be impacted by the spread between short-term and long-term market interest rates.

The replacement of the London Inter-bank Offered Rate (“LIBOR”) may increase our cost of borrowing and could adversely impact our business, financial condition and results of operations.

The replacement for LIBOR, and floating rate benchmarks generally, could have adverse impacts on floating-rate obligations, loans, deposits, derivatives and other financial instruments that used LIBOR as a benchmark rate and adversely affect the Company's business, financial condition or results of operations.

The floating rate features of our outstanding 2029 Notes due were based on LIBOR, while the floating rate features of our other subordinated notes are based on SOFR. In anticipation of LIBOR's phase out, and the uncertainty of SOFR as a LIBOR replacement, the terms of our 2029 Notes and 2031 Notes provide for a benchmark replacement rate for LIBOR or SOFR, as applicable, with such benchmark replacement rate to be determined by the Company or an independent financial advisor appointed by the Company, as applicable, in each case in accordance with terms of the 2029 Notes and 2031 Notes, respectively. Accordingly, the phase-out of LIBOR and the use of an alternative base rate or a benchmark replacement rate as a basis for calculating interest with respect to any outstanding variable rate indebtedness could lead to an increase in the interest we pay and a corresponding increase in our costs of capital or otherwise have a material adverse impact on our business, financial condition or results of operations.

The Bank may not be able to pay us dividends.

The ability of the Bank to pay dividends to us is limited by state and federal law and depends generally on the Bank's ability to generate net income. If we are unable to comply with applicable provisions of these statutes and regulations, the Bank may not be able to pay dividends to us, we may not be able to pay dividends on our outstanding common stock and our ability to service our debt may be materially impaired.

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

As a part of our liquidity management, we use a number of funding sources in addition to core deposit growth and repayments and maturities of loans and investments. These sources include brokered deposits and FHLB advances. Further, in the past, we have raised additional capital in the public debt and equity markets to support balance sheet growth, refinance existing debt obligations, or explore strategic alternatives which may include additional asset, deposit or revenue generation channels. Our ability to source deposits and raise future capital, if needed, will depend upon our financial performance and conditions in the capital markets, as well as economic conditions generally. Accordingly, such financing may not be available to us on acceptable terms or at all. If we cannot raise additional capital when needed, it could have a material adverse effect on our business, financial condition and results of operations.

The Company's stock price can be volatile.

The Company's stock price can fluctuate widely in response to a variety of factors, including without limitation: actual or anticipated variations in the Company's quarterly operating results; recommendations by securities analysts; significant acquisitions or business combinations; strategic partnerships, joint ventures or capital commitments; operating and stock price performance of other companies that investors deem comparable to the Company; new technology used or services offered by the Company's competitors; news reports relating to trends, concerns and other issues in the banking and financial services industry; and changes in government regulations. General market fluctuations, industry factors and general economic and political conditions and events, including terrorist attacks, increased inflation, economic slowdowns or recessions, interest rate changes, credit loss trends or currency fluctuations, could also cause the Company's stock price to decrease, regardless of the Company's operating results.

Operational Risks

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

The Bank conducts its deposit gathering activities and a portion of its lending activities through digital channels. The financial services industry is undergoing rapid technological change, and we face constant evolution of customer demand for

technology-driven financial and banking products and services. Many of our competitors have substantially greater resources to invest in technological improvement and product development, marketing and implementation. Any failure to successfully keep pace with and fund technological innovation in the markets in which we compete could have a material adverse effect on our business, financial condition and results of operations.

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

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

A failure in or breach of our operational or security systems or infrastructure, or those of our third-party vendors and other service providers, including as a result of cyber-attacks, could disrupt our business and lead to unauthorized disclosure of customers' personal information, theft or misuse of confidential or proprietary information, damage to our reputation, and increases in our costs or financial losses.

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

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

Third parties with whom we do business or that facilitate our business activities, including financial intermediaries or vendors that provide services or security solutions for our operations, could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints. Although to date we have not experienced any material losses relating to cyber-attacks or other information security breaches, like other companies, we and our vendors face a wide range of ongoing cyber threats that include phishing emails and social engineering schemes, ransomware threats, and criminal re-use of credentials sold on the dark web. There can be no assurance that we will not suffer such material losses in the future. Our risk and exposure to these matters remains heightened because of the evolving nature of these threats. As a result, cybersecurity and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, company data, networks, and customer information from attack, damage or unauthorized access remain a focus for us. As threats continue to evolve, we may be required to expend additional resources to continue to modify or enhance our protective measures or to investigate and remediate information security vulnerabilities.

Disruptions or failures in the physical infrastructure or operating systems that support our business and clients, or cyber-attacks or security breaches of the networks, systems or devices that our clients use to access our products and services, could result in client attrition, regulatory fines, penalties or intervention, breach investigation and notification expenses,

reputational damage, claims or litigation, reimbursement or other compensation costs and/or additional compliance costs, any of which could materially and adversely affect our business, financial condition and results of operations.

Legal and Regulatory Risks

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

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

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

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

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

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

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

In order to remain “well-capitalized”, the Basel III Capital Rules require the Company and the Bank to maintain: (i) a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of 4.5%, plus a 2.5% “capital conservation buffer” (resulting in a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of 7.0%); (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of 6.0%, plus the capital conservation buffer (resulting in a minimum Tier 1 capital ratio of 8.5%); (iii) a minimum ratio of Total capital to risk-weighted assets of 8.0%, plus the capital conservation buffer (resulting in a minimum Total capital ratio of 10.5%); and (iv) a minimum Leverage Ratio of 4.0%.

The application of more stringent capital requirements for both the Company and the Bank could, among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions constraining us from

paying dividends or repurchasing shares if we were to be unable to comply with such requirements, any of which could have a material adverse effect on our business and profitability.

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

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

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

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

We face risk under the BSA and other anti-money laundering statutes and regulations, as well as general fund transfer and payments-related risk.

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

In addition, financial institutions, including ourselves, bear fund transfer risks of different types which result from large transaction volumes and large dollar amounts of incoming and outgoing money transfers. Loss exposure may result if money is transferred from the Bank before it is received, or legal rights to reclaim monies transferred are asserted. Such exposure results from payments which are made to merchants for payment clearing, while customers have statutory periods to reverse their payments. It also results from funds transfers made prior to receipt of offsetting funds, as accommodations to customers. Transfers could also be made in error. Additionally, as with other financial institutions, we may incur legal liability or reputational risk, if we unknowingly process payments for companies in violation of money laundering laws or regulations or immoral activities.

Our introduction of new products and programs in partnership with fintechs has increased account and transaction volume at the Bank and thereby increased the foregoing risks, the results of which could have a material adverse effect on our business, financial condition and results of operations.

We may be subject to potential liability and business risk from actions by our regulators related to supervision of third parties.

Our regulators or auditors have required us to increase the level and manner of our oversight of the third parties which provide marketing and other services through which we offer products and services, whether in connection with our introduction of new programs and products, or otherwise. Although we have significant compliance staff and have used outside consultants, our internal and external compliance examiners continually evaluate our practices and must be satisfied with the results of our third-party oversight activities. We cannot assure you that we will satisfy all related requirements. Not maintaining a compliance management system which is deemed adequate could result in sanctions or other action against the Bank. Our ongoing review and analysis of our compliance management system and implementation of any changes resulting from that review and analysis will likely result in increased non-interest expense.

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

Because we are a bank holding company, any purchaser of certain specified amounts of our common stock may be required to file a notice with or obtain the approval of the Federal Reserve under the BHCA, as amended, and the Change in Bank Control Act of 1978, as amended. Specifically, under regulations adopted by the Federal Reserve, (1) any other bank holding company may be required to obtain the approval of the Federal Reserve before acquiring 5% or more of our common stock and (2) any person may be required to file a notice with and not be disapproved by the Federal Reserve to acquire 10% or more of our common stock and will be required to file a notice with and not be disapproved by the Federal Reserve to acquire 25% or more of our common stock. Further, recently enacted laws impose an excise tax on a public company's repurchase of its own stock. There are discussions and proposed legislation to increase that excise tax. Increases in the excise tax on stock repurchases could negatively affect our current stock repurchase program and our ability to repurchase common stock in the future.

Item 1B. Unresolved Staff Comments

None.

Item 1C. Cybersecurity

We believe that cybersecurity and the protection of data and customer information in our possession, custody or control is of paramount importance to our business. We have therefore designed and implemented a framework of policies, programs and procedures (the "Information Security Program") intended to protect the confidentiality, integrity, and availability of our critical systems and information, including customer information. The Information Security Program is informed by interagency guidance issued by banking regulators as well as the FFIEC Information Security Booklet and Cybersecurity Assessment Tool. This does not imply that we meet any particular technical standards, specifications, or requirements, but rather that we use the guidance to help us identify, assess, and manage cybersecurity risks relevant to our business.

Cybersecurity Risk Management and Strategy

Our Information Security Program is aligned to the Company's business strategy. It shares common methodologies, reporting channels and governance processes that apply to other areas of enterprise risk, including legal, compliance, strategic, operational, and financial risk. Key elements of our Information Security Program include:

- risk assessments designed to help identify material cybersecurity risks to our critical systems, information, products, services, and our broader enterprise information technology environment;
- internal testing of our security controls and our response to cybersecurity incidents;
- the use of external service providers, to assess, test or otherwise assist with aspects of our security controls;
- training and awareness programs for all employees that include periodic and ongoing assessments to drive adoption and awareness of cybersecurity processes and controls;
- a cybersecurity incident response plan that includes procedures for responding to cybersecurity incidents;
- maintenance and regular testing of a Business Continuity Plan that includes redundant back-up systems for all critical functions;
- a physical security program that is tested regularly;
- obtaining and maintaining appropriate insurance and indemnification for cybersecurity incidents; including insurance to cover cybersecurity incidents affecting third party vendors and service providers; and
- a third-party risk management program for service providers, suppliers, and vendors, that provides for the assessment, monitoring and management of cybersecurity risk presented by the Company's use of such third parties.

In the last three fiscal years, the Company has not experienced any material cybersecurity incidents, and expenses incurred from cybersecurity incidents were immaterial. For a discussion of whether and how any risks from cybersecurity threats, including as a result of any previous cybersecurity incidents, have materially affected or are reasonably likely to materially affect us, including our business strategy, results of operations or financial condition, refer to Item 1A.

Cybersecurity Governance

Our Board of Directors keeps apprised of and oversees technology risk and cybersecurity of the Company, and receives updates from the Company's Information Security Officer ("ISO") on a quarterly basis. However, the Board has delegated certain specific responsibility for overseeing cybersecurity threats, among other things, to its Audit and Risk Committee. Our ISO and Chief Risk Officer provide the Audit and Risk Committee and the Company's internal Enterprise Risk Management Committee periodic reports on our cybersecurity risks and cybersecurity incidents, if any. The Board, and the Audit and Risk Committee, have appropriate expertise in planning for and dealing with cybersecurity threats. Specifically, and without limitation, David Becker, Ann Dee and Justin Christian all possess specific expertise in this area.

The Audit and Risk Committee and the entire Board review and approve the Company's Information Security Policy, Incident Response Policy, Third Party Risk Management Policy, Risk Appetite Statement and other relevant policies on at least an annual basis. Our ISO, who has over twenty-five years of experience in the system, network, and cybersecurity space, is responsible for implementing the Information Security Program alongside our Chief Information Officer. The ISO and Chief Information Officer both serve on the Enterprise Risk Management Committee, which is chaired by our Chief Risk Officer. They are supported by our team of technology professionals, who are responsible for information technology security monitoring and for managing the controls designed to identify, detect, protect against, respond to and recover from cybersecurity threats and cybersecurity incidents. The Company engages in a continuous risk monitoring process that seeks to identify the likelihood and impact of internal and external threats to our information security systems and data, and assesses the sufficiency of the controls in place to mitigate these threats to acceptable levels on a risk-based basis. Incidents are reported to and handled under our Incident Response Policy, which designates an incident response team and includes procedures and processes to identify, assess, respond to, mitigate and report on cybersecurity incidents.

Item 2. Properties

The Company and the Bank are headquartered in a 172,630 square foot mixed-use building located at 8701 East 116th Street, Fishers, IN 46038. The Bank's wholly-owned subsidiary, SPF15, Inc., owns the building and property.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

None.

PART II

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

Market Information

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

As of March 8, 2024, the Company had 8,655,854 shares of common stock issued and outstanding, and there were 97 holders of record of common stock.

Dividends

Total cash dividends declared by the Company in 2023 were \$0.24 per share. The Company expects to continue to pay cash dividends on a quarterly basis; however, the declaration and amount of any future cash dividends will be subject to the sole discretion of the Board of Directors and will depend upon many factors, including our results of operations, financial condition, capital requirements, regulatory and contractual restrictions (including with respect to the Company's outstanding subordinated debt), business strategy and other factors deemed relevant by the Board of Directors.

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

Issuer Purchases of Equity Securities

In October 2021, the Company's Board of Directors approved a stock repurchase program authorizing the repurchase of up to \$30.0 million, which was subsequently increased to \$35.0 million, of our outstanding common stock from time to time on the open market or in privately negotiated transactions. Under this program, the Company repurchased 855,956 shares of common stock at an average price of \$36.31, for a total investment of \$31.1 million. This stock repurchase authorization expired on December 31, 2022.

In December 2022, the Company's Board of Directors approved a new stock repurchase program authorizing the repurchase of up to \$25.0 million of the Company's outstanding stock from time to time on the open market or in privately negotiated transactions. The stock repurchase program is scheduled to expire on December 31, 2024, and replaced the stock repurchase program mentioned above. Under this program, the Company repurchased 559,522 shares of common stock through March 8, 2024, at an average price of \$19.06, for a total investment of \$10.7 million.

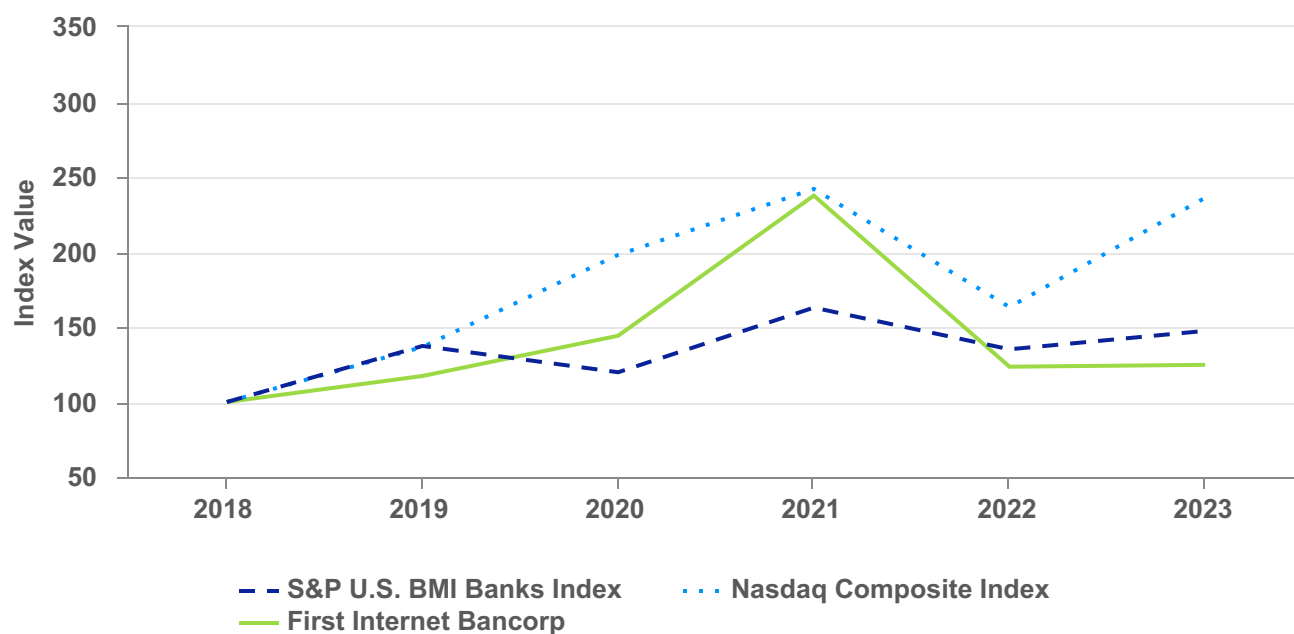
The following table presents information with respect to purchases of the Company's common stock made during the fourth quarter of 2023 by or on behalf of the Company or any "affiliated purchaser," as defined in Rule 10b-18(a)(3).

<i>(dollars in thousands, except per share data)</i>	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Programs	Approximate Dollar Value Of Shares That May Yet Be Purchased Under The Programs
October 1, 2023 - October 31, 2023	23,000	\$ 16.51	23,000	\$ 14,988
November 1, 2023 - November 30, 2023	7,000	18.90	7,000	14,856
December 1, 2023 - December 31, 2023	10,000	23.92	10,000	14,617
Total	<u>40,000</u>		<u>40,000</u>	

Stock Performance Graph

The following graph and table compares the five-year cumulative total return to shareholders of First Internet Bancorp common stock with that of the Nasdaq Composite Index and the S&P U.S. BMI Banks Index. The following assumes \$100 invested on December 31, 2018 in First Internet Bancorp, the Nasdaq Composite Index and the S&P U.S. BMI Bank Index, and assumes that dividends are reinvested. The historical stock price performance for our common stock is not necessarily indicative of future stock performance.

Total Return Performance



Index	December 31,						
	2018	2019	2020	2021	2022	2023	
First Internet Bancorp	\$ 100.00	\$ 117.34	\$ 144.17	\$ 237.61	\$ 123.53	\$ 124.77	
Nasdaq Composite Index	100.00	136.69	198.10	242.03	163.28	236.17	
S&P U.S. BMI Banks Index	100.00	137.36	119.83	162.92	135.13	147.41	

Item 6. [RESERVED]

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

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

The following discussion, analysis and comparisons generally focus on the operating results for the years ended December 31, 2023 and 2022. Discussion, analysis and comparisons of the years ended December 31, 2022 and 2021 that are not included in this Annual Report on Form 10-K can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2022. 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 also the "Cautionary Note Regarding Forward-Looking Statements" at the beginning of this report.

Costs Associated with Exit Activities

Due to the steep decline in consumer mortgage volumes and the negative outlook for consumer mortgage lending, the Company decided to exit its consumer mortgage business during the first quarter 2023. This included its nationwide digital direct-to-consumer mortgage platform that originated residential loans for sale in the secondary market, as well as its local traditional consumer mortgage and construction-to-permanent business. The Company's commercial construction and land development business was not affected by the decision and remains an important part of the Company's lending strategy.

The Company incurred total pre-tax expense of \$3.1 million in 2023 associated with exiting the consumer mortgage origination business.

Results of Operations

During the twelve months ended December 31, 2023, net income was \$8.4 million, or \$0.95 per diluted share, compared to net income of \$35.5 million, or \$3.70 per diluted share, for the twelve months ended December 31, 2022 and net income of \$48.1 million, or \$4.82 per diluted share, for the twelve months ended December 31, 2021.

The \$27.1 million decrease in net income for the twelve months ended December 31, 2023 compared to the twelve months ended December 31, 2022 was due primarily to a decrease of \$22.2 million, or 22.9%, in net interest income, an increase of \$11.7 million, or 234.6%, in provision for credit losses and an increase of \$6.2 million, or 8.4%, in noninterest expense, partially offset by a decrease of \$8.0 million, or 176.3%, in income tax expense and an increase of \$4.9 million, or 22.9%, in noninterest income.

The Company recognized \$3.1 million of mortgage operations and exit costs during the first quarter 2023, which contributed to the increase in noninterest expense compared to the twelve months ended December 31, 2022.

The Company also recognized only \$0.1 million of mortgage banking revenue during the twelve months ended December 31, 2023, down from \$5.5 million during the twelve months ended December 31, 2022, as it immediately began winding down its existing pipeline following the decision to exit the business.

Additionally, during the twelve months ended December 31, 2023, the Company recognized a \$6.9 million partial charge-off related to a commercial and industrial participation loan with a balance of \$9.8 million. This action contributed to the increase in the provision for credit losses as compared to the twelve months ended December 31, 2022. The Company received payment for the remaining balance of the participation loan during 2023.

The decrease in net income of \$12.6 million for the twelve months ended December 31, 2022 compared to the twelve months ended December 31, 2021 was due primarily to an \$11.6 million decrease in noninterest income, an \$11.5 million increase in noninterest expense and a \$3.9 million increase in provision for loan losses, partially offset by a \$10.5 million increase in net interest income and \$3.9 million decrease in income tax expense.

During the twelve months ended December 31, 2023, return on average assets ("ROAA"), return on average equity ("ROAE") and return on average tangible common equity ("ROATCE") were 0.17%, 2.35% and 2.38%. Excluding the impact of exiting consumer mortgage and the partial charge-off, adjusted net income for the twelve months ended December 31, 2023,

was \$16.2 million, and adjusted diluted earnings per share was \$1.83. Additionally, for the twelve months ended December 31, 2023, adjusted ROAA, adjusted ROAE and adjusted ROATCE were 0.33%, 4.54% and 4.60%, respectively.

During the twelve months ended December 31, 2022, ROAA, ROAE and ROATCE were 0.85%, 9.53% and 9.65%, respectively. The Company recognized a nonrecurring consulting fee associated with a special project of \$0.9 million, paid a \$0.5 million discretionary inflation bonus to certain employees, recognized accelerated equity compensation expense of \$0.3 million related to several retirements, incurred acquisition-related expenses of \$0.3 million and recognized a \$0.1 million write-down of software. Excluding these items, adjusted net income for the twelve months ended December 31, 2022 was \$37.2 million and adjusted diluted earnings per share was \$3.86. Additionally, for the twelve months ended December 31, 2022, adjusted ROAA, adjusted ROAE and adjusted ROATCE were 0.90%, 9.98% and 10.10%, respectively.

Refer to the “Reconciliation of Non-GAAP Financial Measures” section of Item 7 of Part II of this report, Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information.

Consolidated Average Balance Sheets and Net Interest Income Analyses

For the periods presented, the following table provides the average balances of interest-earning assets and interest-bearing liabilities and the related yields and cost of funds. 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.

	Twelve Months Ended								
	December 31, 2023			December 31, 2022			December 31, 2021		
	Average Balance	Interest/Dividends	Yield/Cost	Average Balance	Interest/Dividends	Yield/Cost	Average Balance	Interest/Dividends	Yield/Cost
<i>(dollars in thousands)</i>									
Assets									
Interest-earning assets									
Loans, including loans held-for-sale	\$3,685,729	\$ 192,337	5.22 %	\$3,142,166	\$ 140,600	4.47 %	\$2,999,232	\$ 123,467	4.12 %
Securities - taxable	551,479	17,189	3.12 %	537,921	10,711	1.99 %	544,613	7,970	1.46 %
Securities - non-taxable	72,571	3,532	4.87 %	75,382	1,767	2.34 %	84,482	1,017	1.20 %
Other earning assets	500,061	26,384	5.28 %	278,073	3,830	1.38 %	466,608	1,429	0.31 %
Total interest-earning assets	4,809,840	239,442	4.98 %	4,033,542	156,908	3.89 %	4,094,935	133,883	3.27 %
Allowance for credit losses	(36,038)			(29,143)			(29,068)		
Noninterest earning-assets	194,712			166,127			140,059		
Total assets	<u>\$4,968,514</u>			<u>\$4,170,526</u>			<u>\$4,205,926</u>		
Liabilities									
Interest-bearing liabilities									
Interest-bearing demand deposits	\$ 366,082	\$ 6,186	1.69 %	\$ 333,737	\$ 2,056	0.62 %	\$ 195,699	\$ 583	0.30 %
Savings accounts	29,200	249	0.85 %	58,156	336	0.58 %	56,967	203	0.36 %
Money market accounts	1,276,602	49,890	3.91 %	1,423,185	18,513	1.30 %	1,434,829	5,892	0.41 %
BaaS - brokered deposits	33,039	1,402	4.24 %	60,699	1,033	1.70 %	—	—	0.00 %
Certificates and brokered deposits	2,040,041	85,636	4.20 %	1,147,017	19,894	1.73 %	1,411,211	23,144	1.64 %
Total interest-bearing deposits	3,744,964	143,363	3.83 %	3,022,794	41,832	1.38 %	3,098,706	29,822	0.96 %
Other borrowed funds	719,617	21,175	2.94 %	638,526	17,983	2.82 %	600,035	17,505	2.92 %
Total interest-bearing liabilities	4,464,581	164,538	3.69 %	3,661,320	59,815	1.63 %	3,698,741	47,327	1.28 %
Noninterest-bearing deposits	125,816			120,325			101,825		
Other noninterest-bearing liabilities	20,317			16,037			47,255		
Total liabilities	4,610,714			3,797,682			3,847,821		
Shareholders' equity	<u>357,800</u>			<u>372,844</u>			<u>358,105</u>		
Total liabilities and shareholders' equity	<u>\$4,968,514</u>			<u>\$4,170,526</u>			<u>\$4,205,926</u>		
Net interest income		<u>\$ 74,904</u>			<u>\$ 97,093</u>			<u>\$ 86,556</u>	
Interest rate spread ¹			1.29 %			2.26 %			1.99 %
Net interest margin ²			1.56 %			2.41 %			2.11 %
Net interest margin - FTE ³			1.67 %			2.54 %			2.25 %

¹ Yield on total interest-earning assets minus cost of total interest-bearing liabilities

² Net interest income divided by average interest-earning assets

³ On a fully-taxable equivalent ("FTE") basis assuming a 21% tax rate. Refer to the "Reconciliation of Non-GAAP Financial Measures" section of Item 7 of Part II of this report, Management's Discussion and Analysis of Financial Condition and Results of Operations

Rate/Volume Analysis

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

(amounts in thousands)	Rate/Volume Analysis of Net Interest Income					
	Twelve Months Ended December 31, 2023 vs. December 31, 2022 Due to Changes in			Twelve Months Ended December 31, 2022 vs. December 31, 2021 Due to Changes in		
	Volume	Rate	Net	Volume	Rate	Net
Interest income						
Loans, including loans held-for-sale	\$ 26,264	\$ 25,473	\$ 51,737	\$ 6,157	\$ 10,976	\$ 17,133
Securities – taxable	275	6,203	6,478	(100)	2,841	2,741
Securities – non-taxable	(69)	1,834	1,765	(120)	870	750
Other earning assets	4,967	17,587	22,554	(794)	3,195	2,401
Total	31,437	51,097	82,534	5,143	17,882	23,025
Interest expense						
Interest-bearing deposits	12,042	89,489	101,531	(744)	12,754	12,010
Other borrowed funds	2,391	801	3,192	1,094	(616)	478
Total	14,433	90,290	104,723	350	12,138	12,488
Increase /(decrease) in net interest income	\$ 17,004	\$ (39,193)	\$ (22,189)	\$ 4,793	\$ 5,744	\$ 10,537

Net interest income for the twelve months ended December 31, 2023 was \$74.9 million, a decrease of \$22.2 million, or 22.9%, compared to \$97.1 million for the twelve months ended December 31, 2022. The decrease in net interest income was the result of a \$104.7 million, or 175.1%, increase in total interest expense to \$164.5 million for the twelve months ended December 31, 2023 compared to \$59.8 million for the twelve months ended December 31, 2022. The increase in total interest expense was partially offset by an \$82.5 million, or 52.6%, increase in total interest income to \$239.4 million for the twelve months ended December 31, 2023 compared to \$156.9 million for the twelve months ended December 31, 2022.

The growth in total interest income was due primarily to an increase in interest earned on loans resulting from an increase of 75 bps in the yield earned on loans, as well as an increase of \$543.6 million, or 17.3%, in the average balance of loans, including loans held-for-sale. Furthermore, the yield on other earning assets increased 390 bps and the average balance of other earning assets increased \$222.0 million, or 79.8%. Additionally, the average balance of securities increased \$10.7 million, or 1.8%, and the yield earned on the securities portfolio increased 129 bps. The increase in the yields earned on loans, other earning assets and securities was due to the continued rise in interest rates during the fourth quarter 2022 and into 2023. As a result of the higher interest rate environment, the yield on funded portfolio originations was 8.41% for the twelve months ended December 31, 2023, an increase of 302 bps compared to the twelve months ended December 31, 2022.

The increase in total interest expense was due primarily to increases of \$65.7 million, or 330.5%, in interest expense associated with certificates and brokered deposits, \$31.4 million, or 169.5%, in interest expense associated with money market accounts, \$4.1 million, or 200.9%, in interest expense associated with interest-bearing demand deposits and \$3.2 million, or 17.8%, in interest expense associated with other borrowed funds. The increase in interest expense related to certificates and brokered deposits was driven by an increase of 247 bps in the cost of these deposits, as well as an increase of \$893.0 million, or 77.9%, in the average balance of these deposits. The increase in the average balance of these deposits was driven by strong consumer and small business demand for certificates of deposits in 2023, as well as the funding of brokered deposits during the fourth quarter 2022 and earlier in 2023 to supplement on-balance sheet liquidity. The increase in interest expense related to money market accounts was driven primarily by an increase of 261 bps in the cost of these deposits, partially offset by a decrease of \$146.6 million, or 10.3%, in the average balance of these deposits. The increase in interest expense related to interest-bearing demand deposits was due primarily to a 107 bp increase in the cost of these deposits, as well as an increase of \$32.3 million, or 9.7%, in the average balance of these deposits. The increase in interest expense related to other borrowed funds was due primarily to additional long-term FHLB advances in the second half of 2022 at rates lower than market deposit costs, as the cost of the borrowed funds increased only 12 bps while the average balance increased 12.7%. The increase in the overall cost of deposits was due primarily to the continued rise in interest rates during the fourth quarter 2022 and into 2023.

However, as the Federal Reserve's last rate increase was in July 2023, the pace of increase in deposit costs during the third and fourth quarters of 2023 was considerably slower than that experienced during 2022 and the first half of 2023.

Net interest margin ("NIM") was 1.56% for the twelve months ended December 31, 2023 compared to 2.41% for the twelve months ended December 31, 2022. On a fully-taxable equivalent ("FTE") basis, NIM was 1.67% for the twelve months ended December 31, 2023 compared to 2.54% for the twelve months ended December 31, 2022, a decrease of 87 bps. The decrease in NIM and FTE NIM compared to the twelve months ended December 31, 2022 reflects the increase in the cost of interest-bearing liabilities of 206 bps, partially offset by the increase in earning asset yields of 109 bps.

Noninterest Income

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

<i>(amounts in thousands)</i>	Twelve Months Ended December 31,		
	2023	2022	2021
Service charges and fees	\$ 851	\$ 1,071	\$ 1,114
Loan servicing revenue	3,833	2,573	1,934
Loan servicing asset revaluation	(1,463)	(1,639)	(1,069)
Mortgage banking activities	76	5,464	15,050
Gain on sale of loans	20,526	11,372	11,598
Gain on sale of premises and equipment	—	—	2,523
Other	2,302	2,416	1,694
Total noninterest income	\$ 26,125	\$ 21,257	\$ 32,844

During the twelve months ended December 31, 2023, noninterest income totaled \$26.1 million, representing an increase of \$4.9 million, or 22.9%, compared to \$21.3 million for the twelve months ended December 31, 2022. The increase in noninterest income was driven primarily by increases in gain on sale of loans and net loan servicing revenue, partially offset by a decrease in mortgage banking activities. Due to growth in the Company's small business lending line of business, the amount of SBA 7(a) loan sales increased 110.4% during 2023 to \$281.1 million from sales of \$133.6 million during 2022. As a result, gain on sale of loans increased \$9.2 million, or 80.5%, in 2023 compared to the prior year. The increase in net loan servicing revenue was due to growth in the balance of the Company's SBA 7(a) servicing portfolio, as well as slower prepayment speeds in 2023. The decrease in mortgage banking activities was due to the Company's exit from the mortgage business in the first quarter 2023.

Noninterest Expense

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

<i>(amounts in thousands)</i>	Twelve Months Ended December 31,		
	2023	2022	2021
Salaries and employee benefits	\$ 45,322	\$ 41,553	\$ 38,223
Marketing, advertising and promotion	2,567	3,554	3,261
Consulting and professional services	3,082	4,826	4,054
Data processing	2,373	1,989	1,649
Loan expenses	5,756	4,435	2,112
Premises and equipment	10,599	10,688	7,063
Deposit insurance premium	3,880	1,152	1,213
Other	5,857	5,076	4,223
Total noninterest expense	\$ 79,436	\$ 73,273	\$ 61,798

Noninterest expense for the twelve months ended December 31, 2023 was \$79.4 million, compared to \$73.3 million for the twelve months ended December 31, 2022. The increase of \$6.2 million, or 8.4%, compared to the twelve months ended December 31, 2022 was due primarily to increases of \$3.8 million in salaries and employee benefits, \$2.8 million in deposit insurance premium and \$1.3 million in loan expenses, partially offset by decreases of \$1.7 million in consulting and professional fees and \$1.0 million in marketing, advertising and promotion. The increase in salaries and employee benefits was due primarily to mortgage exit costs, as well as an increase in headcount and higher incentive compensation in small business and construction lending. The increase in deposit insurance premium was due mainly to year-over-year asset growth, as well as the composition of loans and deposits. The increase in loan expenses was due primarily to mortgage exit costs and accrued contract expenses, as well as higher third-party loan servicing fees and other miscellaneous lending costs. The decrease in consulting and professional fees was due primarily to consulting fees related to a special project that occurred in the first quarter 2022, as well as lower legal fees in 2023. The decrease in marketing, advertising and promotion expense was due primarily to cost savings from the Company's exit from the mortgage business in the first quarter 2023.

Income Taxes

The following table reconciles reported income tax (benefit) provision to that computed at the statutory federal tax rate for the three most recent years.

<i>(amounts in thousands)</i>	Twelve Months Ended December 31,		
	2023	2022	2021
Statutory rate times pre-tax income	\$ 1,037	\$ 8,421	\$ 11,880
(Subtract) add the tax effect of:			
Income from tax-exempt securities and loans	(3,951)	(4,190)	(4,217)
State income taxes, net of federal tax effect	(30)	592	865
Bank-owned life insurance	(215)	(201)	(199)
Tax credits	(168)	(143)	(175)
Other differences	(150)	80	304
Income tax (benefit) provision	\$ (3,477)	\$ 4,559	\$ 8,458

We recognized an income tax benefit of \$3.5 million in 2023, compared to an income tax provision of \$4.6 million and an effective tax rate of 11.4% in 2022. Our federal statutory tax rate was 21% in 2023 and 2022. In 2023 and 2022, the variance from the federal statutory rate was due primarily to tax-exempt income. Interest income on certain loans or securities issued by governmental, municipal and not-for-profit entities, and earnings from bank-owned life insurance were the primary components of tax-exempt income.

Financial Condition

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

(amounts in thousands)

Balance Sheet Data:	December 31,	
	2023	2022
Total assets	\$ 5,167,572	\$ 4,543,104
Loans	3,840,220	3,499,401
Total securities	702,008	579,552
Loans held-for-sale	22,052	21,511
Noninterest-bearing deposits	123,464	175,315
Interest-bearing deposits	3,943,509	3,265,930
Total deposits	4,066,973	3,441,245
Advances from Federal Home Loan Bank	614,934	614,928
Total shareholders' equity	362,795	364,974

Total assets increased \$624.5 million, or 13.7%, to \$5.2 billion as of December 31, 2023 compared to \$4.5 billion as of December 31, 2022. Balance sheet growth was driven primarily by an increase in deposits of \$625.7 million, or 18.2%. A portion of the increase in deposits was used to fund loan growth as loan balances increased \$340.8 million, or 9.7%. However, as deposit growth outpaced loan growth, balance sheet liquidity increased as the combined balance of cash and securities increased \$271.8 million, or 32.5%, and the percentage of loans to deposits declined to 94.4% as of December 31, 2023, compared to 101.7% as of December 31, 2022.

As of December 31, 2023, total shareholders' equity was \$362.8 million, a decrease of \$2.2 million, or 0.6%, compared to December 31, 2022. The decrease in shareholders' equity was due primarily to stock repurchase activity and the day 1 CECL adjustment, partially offset by net income earned during the period. Tangible common equity totaled \$358.1 million as of December 31, 2023, representing a decrease of \$2.2 million, or 0.6%, compared to December 31, 2022. The ratio of total shareholders' equity to total assets decreased to 7.02% as of December 31, 2023 from 8.03% as of December 31, 2022 and the ratio of tangible common equity to tangible assets decreased to 6.94% as of December 31, 2023 from 7.94% as of December 31, 2022. The decrease in both shareholders' equity to total assets and tangible common equity to tangible assets is due primarily to the stock repurchase activity and day 1 CECL adjustment mentioned above, as well as an increase in total assets, partially offset by net income earned during the period.

Book value per common share increased 4.2% to \$41.97 as of December 31, 2023 from \$40.26 as of December 31, 2022. Tangible book value per share increased 4.2% to \$41.43 as of December 31, 2023 from \$39.74 as of December 31, 2022. The increase in both book value per common share and tangible book value per share reflects the effect of stock repurchase activity throughout the year, partially offset by the declines in total shareholders' equity and tangible common equity. Refer to the "Reconciliation of Non-GAAP Financial Measures" section of Item 7 of Part II of this report, Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information.

Loan Portfolio Analysis

The following table provides information regarding our loan portfolio as of the end of the last two years.

(dollars in thousands)	December 31,			
	2023		2022	
Commercial loans				
Commercial and industrial	\$ 129,349	3.4 %	\$ 126,108	3.6 %
Owner-occupied commercial real estate	57,286	1.5 %	61,836	1.8 %
Investor commercial real estate	132,077	3.4 %	93,121	2.7 %
Construction	261,750	6.8 %	181,966	5.2 %
Single tenant lease financing	936,616	24.4 %	939,240	26.8 %
Public finance	521,764	13.6 %	621,032	17.7 %
Healthcare finance	222,793	5.8 %	272,461	7.8 %
Small business lending	218,506	5.7 %	123,750	3.5 %
Franchise finance	525,783	13.7 %	299,835	8.6 %
Total commercial loans	3,005,924	78.3 %	2,719,349	77.7 %
Consumer loans				
Residential mortgage	395,648	10.3 %	383,948	11.0 %
Home equity	23,669	0.6 %	24,712	0.7 %
Other consumer	377,614	9.8 %	324,598	9.3 %
Total consumer loans	796,931	20.7 %	733,258	21.0 %
Total commercial and consumer loans	3,802,855	99.0 %	3,452,607	98.7 %
Net deferred loan origination costs, premiums and discounts on purchased loans and other ¹	37,365	1.0 %	46,794	1.3 %
Total loans	3,840,220	100.0 %	3,499,401	100.0 %
Allowance for credit losses - loans	(38,774)		(31,737)	
Net loans	\$ 3,801,446		\$ 3,467,664	

¹ Includes carrying value adjustments of \$27.8 million and \$32.5 million related to terminated interest rate swaps associated with public finance loans as of December 31, 2023 and December 31, 2022, respectively.

Total loans were \$3.8 billion as of December 31, 2023, an increase of \$340.8 million, or 9.7%, compared to December 31, 2022. Total commercial loan balances were \$3.0 billion, as of December 31, 2023, up \$286.6 million, or 10.5%, from December 31, 2022. Total consumer loan balances were \$796.9 million as of December 31, 2023, an increase of \$63.7 million, or 8.7%, compared to December 31, 2022. Compared to December 31, 2022, the increase in commercial loan balances was driven by growth in the franchise finance, small business lending, construction and investor commercial real estate portfolios. The increase was partially offset by a decrease in the fixed-rate public finance portfolio, as well as continued runoff in the healthcare finance portfolio. During 2023, the Company continued to execute on its strategy of redeploying cash flows from longer-duration fixed rate portfolios to variable rate and higher yielding loan types in order to improve net interest margin and mitigate long-term interest rate risk. The increase in consumer loans was due to higher balances in the recreational vehicles and trailers loan portfolios, in addition to funded residential mortgages and draws on construction/perm loans that were in the pipeline prior to exiting the business.

Loan Maturities and Rate Sensitivity

The following table shows the contractual maturity distribution intervals (without regard to repayment or repricing schedules) of the outstanding loans in our portfolio as of December 31, 2023.

<i>(amounts in thousands)</i>	Within 1 Year	1-5 Years	5-15 Years	Beyond 15 Years	Total
Commercial loans					
Commercial and industrial	\$ 36,461	\$ 58,856	\$ 34,023	\$ 9	\$ 129,349
Owner-occupied commercial real estate	6,546	19,260	31,480	—	57,286
Investor commercial real estate	61,012	68,360	2,705	—	132,077
Construction	83,560	176,993	1,197	—	261,750
Single tenant lease financing	35,083	383,420	518,113	—	936,616
Public finance	33,267	64,720	372,050	51,727	521,764
Healthcare finance	—	21,333	201,460	—	222,793
Small business lending	45	1,884	170,448	46,129	218,506
Franchise finance	—	40,831	484,952	—	525,783
Total commercial loans	255,974	835,657	1,816,428	97,865	3,005,924
Consumer loans					
Residential mortgage	—	400	15,573	379,675	395,648
Home equity	1,239	278	5,973	16,179	23,669
Other consumer	1,264	18,576	307,663	50,111	377,614
Total consumer loans	2,503	19,254	329,209	445,965	796,931
Total commercial and consumer loans	\$ 258,477	\$ 854,911	\$ 2,145,637	\$ 543,830	\$ 3,802,855

The following table shows the rate sensitivity of the outstanding loans in our portfolio by the contractual maturity distribution intervals as of December 31, 2023.

<i>(amounts in thousands)</i>	Within 1 Year	1-5 Years	5-15 Years	Beyond 15 Years	Total
Fixed rate	\$ 76,393	\$ 594,012	\$ 1,945,170	\$ 429,865	\$ 3,045,440
Variable rate	182,084	260,899	200,467	113,965	757,415
Total commercial and consumer loans	\$ 258,477	\$ 854,911	\$ 2,145,637	\$ 543,830	\$ 3,802,855

Loan Approval Procedures and Authority

Our lending activities follow written, non-discriminatory policies with loan approval limits approved by the Board of Directors of the Bank. Loan officers have underwriting and approval authorization of varying amounts based on their lending experience and product type. Additionally, based on the amount of the loan, multiple approvals may be required. Based on the Bank's legal lending limit, the maximum it could lend to any one borrower at December 31, 2023 was \$75.6 million.

Our goal is to have a well-diversified and balanced loan portfolio. In order to manage our loan portfolio risk, we establish concentration limits by borrower, product type, industry and geography. To supplement our internal loan review resources, we have engaged independent third-party loan review groups, which are a key component of our overall risk management process related to credit administration.

Asset Quality

(dollars in thousands)	December 31,	
	2023	2022
Nonaccrual loans		
Commercial loans:		
Commercial and industrial	\$ —	\$ 51
Owner-occupied commercial real estate	—	1,570
Small business lending	6,824	4,764
Franchise finance	303	—
Total commercial loans	7,127	6,385
Consumer loans:		
Residential mortgage	1,911	1,048
Other consumer	86	17
Total consumer loans	1,997	1,065
Total nonaccrual loans	9,124	7,450
Past Due 90 days and accruing loans		
Consumer loans:		
Residential mortgage	838	79
Total consumer loans	838	79
Total past due 90 days and accruing loans	838	79
Total nonperforming loans	9,962	7,529
Other real estate owned		
Residential mortgage	375	—
Total other real estate owned	375	—
Other nonperforming assets	17	42
Total nonperforming assets	<u>\$ 10,354</u>	<u>\$ 7,571</u>
Total nonperforming loans to total loans	0.26 %	0.22 %
Total nonperforming assets to total assets	0.20 %	0.17 %
Allowance for credit losses - loans to total loans	1.01 %	0.91 %
Nonaccrual loans to total loans	0.24 %	0.21 %
Allowance for credit losses - loans to nonaccrual loans	425.0 %	426.0 %

A loan is individually evaluated, when, based on current information or events, it is probable that we 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 individually evaluated. Certain nonaccrual and substantially all delinquent loans more than 90 days past due may be individually evaluated. 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 individually evaluated loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due.

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

Nonperforming loans are comprised of total nonaccrual loans and loans 90 days past due and accruing. Nonperforming assets include nonperforming loans, other real estate owned ("OREO") and other nonperforming assets, which consist of repossessed assets. Nonperforming assets could also include individual securities for which a credit loss has been recognized; however, we did not own any securities classified as such during the two-year period ended December 31, 2023.

Total nonperforming loans increased \$2.4 million, or 32.3%, to \$10.0 million as of December 31, 2023 compared to \$7.5 million as of December 31, 2022, due primarily to increases in nonperforming loans related to the small business lending and residential mortgage portfolios, partially offset by an owner-occupied commercial real estate loan that was returned to accrual status during the year. Total nonperforming assets increased \$2.8 million, or 36.8%, to \$10.4 million as of December 31, 2023, compared to \$7.6 million as of December 31, 2022, due primarily to the increases of nonperforming loans related to small business lending and residential mortgage portfolios mentioned above, as well as increases in other real estate owned (“OREO”) and accruing loans past due 90 days or more, partially offset by the owner-occupied commercial real estate loan mentioned above. As of December 31, 2023, the Company had two residential mortgage properties in OREO with a carrying value of \$0.4 million. As of December 31, 2022, the Company did not own any OREO.

Troubled Debt Restructurings

With the adoption ASU 2022-02, effective January 1, 2023, troubled debt restructurings (“TDRs”) accounting was eliminated. Total TDRs as of December 31, 2022 were \$5.5 million. There were two portfolio residential mortgage loans and one small business lending loan classified as new TDRs during the twelve months ended December 31, 2022, with pre-modification and post-modification balances totaling \$1.6 million. The following table provides a summary of troubled debt restructurings.

	December 31,	
	2023	2022
<i>(amounts in thousands)</i>		
Troubled debt restructurings – nonaccrual	\$ —	\$ 2,864
Troubled debt restructurings – performing	—	2,658
Total troubled debt restructurings	<u>\$ —</u>	<u>\$ 5,522</u>

Allowance for Credit Losses - Loans

The following table provides a rollforward of the allowance for credit losses for the twelve months ended December 31, 2023 and 2022.

(amounts in thousands)	December 31,	
	2023	2022
Balance, beginning of period	\$ 31,737	\$ 27,841
Adoption of ASU 2016-13 (CECL)	2,962	—
Balance, beginning of period	34,699	27,841
Provision charged to expense	15,454	4,977
Losses charged off		
Commercial and industrial	(7,049)	—
Investor commercial real estate	(591)	—
Healthcare finance	(605)	—
Small business lending	(2,586)	(402)
Franchise finance	(331)	—
Residential mortgage	(140)	—
Other consumer	(582)	(2,358)
Total losses charged off	(11,884)	(2,760)
Recoveries		
Commercial and industrial	243	5
Single tenant lease financing	—	1,231
Small business lending	77	29
Residential mortgage	5	4
Home equity	6	139
Other consumer	174	271
Total recoveries	505	1,679
Balance, end of period	\$ 38,774	\$ 31,737
Net charge-offs	\$ 11,379	\$ 1,081
Net charge-offs (recoveries) to average loans (annualized)		
Commercial and industrial	6.87%	(0.01%)
Investor commercial real estate	0.47 %	— %
Single tenant lease financing	— %	(0.14%)
Healthcare finance	0.25 %	— %
Small business lending	1.34 %	0.32 %
Franchise Finance	0.08 %	— %
Total commercial net charge-offs (recoveries)	0.38%	(0.03%)
Residential mortgage	0.03 %	— %
Home equity	(0.02%)	(0.68%)
Other consumer	0.21 %	0.43 %
Total consumer net charge-offs (recoveries)	0.07 %	0.32 %
Net charge-offs to average loans	0.31 %	0.03 %

The determination of the allowance for credit losses (“ACL”) and the related provision for credit losses are components of our significant accounting policies as discussed within Note 1 to our consolidated financial statements. The adequacy of the allowance for credit losses and the provision are based on the review and evaluation of the loan portfolio and reflect management’s assessment of the risks and potential losses within the portfolio. This evaluation uses a discounted cash flow analysis based on historical loss data, reasonable and supportable forecasts and prepayment rates, as well as qualitative factors such as economic and business conditions, portfolio growth, concentrations of credit in the portfolio, trends in risk grades, delinquencies within the portfolio and changes in our lending policies and practices.

Management actively monitors asset quality and, when appropriate, charges off loans against the allowance for credit losses. Although management believes it uses the best information available to make determinations with respect to the

allowance for credit losses, future adjustments may be necessary if economic conditions differ substantially from those in the assumptions used to determine the size of the allowance for credit losses.

The ACL was \$38.8 million as of December 31, 2023, compared to an ALLL of \$31.7 million as of December 31, 2022. The increase in the ACL reflects the day one current expected credit losses (“CECL”) adjustment of \$3.0 million, overall growth in the loan portfolio, changes in certain economic forecasts that impacted quantitative loss rates, adjustments to qualitative factors for certain portfolios and specific reserves placed on certain loans. The ACL as a percentage of total loans was 1.01% as of December 31, 2023, compared to 0.91% at December 31, 2022. The ACL as a percentage of nonperforming loans decreased to 389.2% as of December 31, 2023, compared to 421.5% as of December 31, 2022.

The provision for credit losses - loans was \$15.5 million for the twelve months ended December 31, 2023 compared to \$5.0 million for the twelve months ended December 31, 2022. The increase in the provision for credit losses - loans for the twelve months ended December 31, 2023 was driven primarily by increases in net charge-offs, which included the aforementioned partial charge-off of a commercial and industrial participation loan and increased charge-offs in small business lending. Also impacting the increase in the provision for credit losses - loans were additional specific reserves related to small business lending, partially offset by the positive impact of economic forecasts on certain portfolios.

Investment Securities Portfolio

In managing our investment securities portfolio, management focuses on providing an adequate level of liquidity and managing long-term interest rate risk, while earning an adequate level of investment income without taking undue risk. Investment securities that are acquired and held principally for the purpose of selling them in the near term with the objective of generating economic profits on short-term differences in market characteristics are classified as “trading securities.” We did not classify any securities as trading securities as of December 31, 2023 and 2022. Securities that we intend to hold until maturity are classified as “held-to-maturity” securities, and all other investment securities are classified as “available-for-sale.” The carrying values of available-for-sale investment securities are adjusted for unrealized gains or losses as a valuation allowance and any gain or loss is reported on an after-tax basis as a component of other comprehensive income (loss).

We periodically evaluate each security in an unrealized loss position to determine if there is an impairment. As of December 31, 2023, the unrealized losses in our investment securities portfolio were due primarily to interest rate changes. We have the ability and intent to hold all investment securities in an unrealized loss position resulting from interest rate changes to the earlier of the forecasted recovery or the maturity of the underlying investment security. As of December 31, 2023, we did not have any investment securities of a single issuer that exceeded 10% of shareholders’ equity. The term “issuer” excludes the U.S. Government and its sponsored agencies and corporations.

The following tables present the amortized cost and approximate fair value of our investment securities portfolio by security type as of the end of the last two years.

(amounts in thousands)

Amortized Cost	December 31,	
	2023	2022
Securities available-for-sale		
U.S. Government-sponsored agencies	\$ 96,404	\$ 35,606
Municipal securities	69,494	68,958
Agency mortgage-backed securities - residential	237,798	252,066
Agency mortgage-backed securities - commercial	40,215	17,142
Private label mortgage-backed securities - residential	21,742	11,777
Asset-backed securities	8,071	5,000
Corporate securities	39,591	45,634
Total securities available-for-sale	513,315	436,183
Securities held-to-maturity		
Municipal securities	13,889	13,946
Agency mortgage-backed securities - residential	166,750	121,853
Agency mortgage-backed securities - commercial	5,767	5,818
Corporate securities	40,747	47,551
Total held-to-maturity, net	227,153	189,168
Total securities	\$ 740,468	\$ 625,351

Approximate Fair Value	December 31,	
	2023	2022
Securities available-for-sale		
U.S. Government-sponsored agencies	\$ 95,177	\$ 33,809
Municipal securities	68,446	67,276
Agency mortgage-backed securities - residential	206,649	215,092
Agency mortgage-backed securities - commercial	38,885	15,840
Private label mortgage-backed securities - residential	20,779	10,455
Asset-backed securities	8,081	4,960
Corporate securities	36,838	42,952
Total securities available-for-sale	474,855	390,384
Securities held-to-maturity		
Municipal securities	13,040	12,832
Agency mortgage-backed securities - residential	152,642	106,741
Agency mortgage-backed securities - commercial	4,521	4,552
Corporate securities	37,369	44,358
Total held-to-maturity	207,572	168,483
Total securities	\$ 682,427	\$ 558,867

The approximate fair value of investment securities available-for-sale increased \$84.5 million, or 21.6%, to \$474.9 million as of December 31, 2023 compared to \$390.4 million as of December 31, 2022. The increase was due primarily to increases of \$61.4 million in U.S. Government-sponsored agencies securities, \$23.0 million in agency mortgage-backed securities - commercial and \$10.3 million in private label mortgage-backed securities - residential, partially offset by decreases of \$8.4 million in agency mortgage-backed securities - residential and \$6.1 million in corporate securities. During 2023, the Company's strategy for purchasing available-for-sale securities included a focus on variable rate agency and high-quality short duration private label mortgage-backed securities in order to minimize price risk regardless of the interest rate environment. As of December 31, 2023, the Company had securities with an amortized cost basis of \$207.6 million designated as held-to-maturity compared to \$168.5 million as of December 31, 2022. The increase was due primarily to CRA-eligible purchases of agency mortgage-backed securities - residential.

Investment Maturities

The following table summarizes the contractual maturity schedule (without regard to repricing schedules) of our investment securities at their amortized cost and their weighted average yields at December 31, 2023.

(dollars in thousands)	1 year or less		More than 1 year to 5 years		More than 5 years to 10 years		More than 10 years		Total	
	Amortized Cost	Wtd. Avg. Yield	Amortized Cost	Wtd. Avg. Yield	Amortized Cost	Wtd. Avg. Yield	Amortized Cost	Wtd. Avg. Yield	Amortized Cost	Wtd. Avg. Yield
Securities:										
U.S. Government-sponsored agencies	\$ 250	2.84 %	\$ 1,996	4.86 %	\$ 39,391	5.61 %	\$ 54,767	5.58 %	\$ 96,404	5.57 %
Municipal securities	1,295	2.35 %	11,987	2.89 %	16,938	2.71 %	53,163	2.71 %	83,383	2.73 %
Agency mortgage-backed securities - residential	—	— %	568	1.68 %	4,558	2.06 %	399,422	2.45 %	404,548	2.45 %
Agency mortgage-backed securities - commercial	—	— %	4,769	2.39 %	22,158	6.17 %	19,055	2.84 %	45,982	4.40 %
Private-label mortgage-backed securities - residential	—	— %	—	— %	—	— %	21,742	4.68 %	21,742	4.68 %
Asset-backed securities	—	— %	—	— %	—	— %	8,071	6.94 %	8,071	6.94 %
Corporate securities	—	— %	23,546	5.78 %	56,792	4.64 %	—	— %	80,338	4.98 %
Total securities	<u>\$ 1,545</u>	2.43 %	<u>\$ 42,866</u>	4.50 %	<u>\$ 139,837</u>	4.84 %	<u>\$ 556,220</u>	2.95 %	<u>\$ 740,468</u>	3.39 %

Accrued Income and Other Assets

Accrued income and other assets increased \$6.2 million, or 13.8%, to \$51.1 million at December 31, 2023 compared to \$44.9 million at December 31, 2022. The increase was due primarily to increases of \$3.0 million in deferred tax assets and \$3.4 million in fund investments.

Deposits

The following table presents the composition of our deposit base as of the end of the last two years.

(dollars in thousands)	December 31,			
	2023		2022	
Noninterest-bearing deposits	\$ 123,464	3.0 %	\$ 175,315	5.1 %
Interest-bearing demand deposits	402,976	9.9 %	335,611	9.8 %
Savings accounts	21,364	0.5 %	44,819	1.3 %
Money market accounts	1,248,319	30.8 %	1,418,599	41.2 %
BaaS - brokered deposits	74,401	1.8 %	13,607	0.4 %
Certificates of deposits	1,605,156	39.5 %	874,490	25.4 %
Brokered deposits	591,293	14.5 %	578,804	16.8 %
Total	<u>\$4,066,973</u>	<u>100.0 %</u>	<u>\$3,441,245</u>	<u>100.0 %</u>

Total deposits increased \$625.7 million, or 18.2%, to \$4.1 billion as of December 31, 2023 compared to \$3.4 billion as of December 31, 2022. This increase was due primarily to increases of \$730.7 million, or 83.6%, in certificates of deposits, \$67.4 million, or 20.1%, in interest-bearing demand deposits, \$60.8 million, or 446.8%, in BaaS - brokered deposits and \$12.5 million, 2.2%, in brokered deposits, partially offset by decreases of \$170.3 million, or 12.0%, in money market accounts, \$51.9 million, or 29.6%, in noninterest-bearing deposits, and \$23.5 million, or 52.3%, in savings accounts. The increase in certificates of deposits and brokered deposits was due primarily to strong consumer and small business demand in 2023. The increase in interest-bearing demand deposits was due primarily to growth in fintech partnership deposits. The increase in BaaS - brokered deposits was driven by higher payments volume with one of our fintech partners. The increase in brokered deposits was due to the issuance of long-term brokered certificates of deposits to manage long-term interest rate risk and take advantage of the inverted yield curve. The decrease in money market accounts was due primarily to certain customer activity that can be periodically volatile, as well as certain higher-cost relationships that were exited during 2023. The decline in noninterest-bearing deposits was due primarily to drawdowns from commercial real estate development and construction clients contributing equity to projects the Company is financing. The decrease in savings accounts was due primarily to customer withdrawal activity.

Uninsured deposit balances represented 25% of total deposits at December 31, 2023, down from 33% at December 31, 2022. These balances include Indiana-based municipal deposits, which are insured by the Indiana Board for Depositories, as well as larger balance accounts under contractual agreements that only allow withdrawal under certain conditions. After subtracting these types of deposits, the adjusted uninsured deposit balance decreased to 19% as of December 31, 2023, down from 24% as of December 31, 2022.

The following tables present contractual interest rates paid on time deposits, their scheduled maturities, and the scheduled maturities for time deposits greater than \$250,000.

Time Deposit Maturities at December 31, 2023

(dollars in thousands)	Period to Maturity				Total	Percentage of Total Certificate Accounts
	Less than 1 year	> 1 year to 2 years	> 2 years to 3 years	More than 3 years		
Interest Rate:						
<1.00%	\$ 64,307	\$ 91,103	\$ 47,939	\$ 53,638	\$ 256,987	13.8 %
1.00% – 1.99%	14,668	7,643	254	628	23,193	1.2 %
2.00% – 2.99%	77,257	6,217	2,875	40,610	126,959	6.8 %
3.00% – 3.99%	28,030	20,826	27,140	115,057	191,053	10.2 %
4.00% – 4.99%	1,142,207	50,088	20,328	56,031	1,268,654	67.7 %
5.00% – 5.99%	5,955	—	213	—	6,168	0.3 %
Total	\$ 1,332,424	\$ 175,877	\$ 98,749	\$ 265,964	\$ 1,873,014	100.0 %

Time Deposit Maturities Greater than \$250,000

<i>(dollars in thousands)</i>	December 31, 2023
Maturity Period:	
3 months or less	\$ 157,414
Over 3 through 6 months	112,044
Over 6 through 12 months	160,658
Over 12 months	273,719
Total	<u>\$ 703,835</u>

Federal Home Loan Bank Advances

Although deposits are the primary source of funds for our lending and investment activities and for general business purposes, we may use short-term advances from the Federal Home Loan Bank of Indianapolis (the “FHLB”) to manage liquidity needs and longer-term advances to supplement deposit growth and manage interest rate risk. The following table is a summary of FHLB borrowings for the periods indicated.

<i>(dollars in thousands)</i>	At or For The Twelve Months Ended December 31,	
	2023	2022
Balance outstanding at end of period	\$ 614,934	\$ 614,928
Average amount outstanding during period	614,931	534,144
Maximum outstanding at any month end during period	614,934	615,928
Weighted average interest rate at end of period ¹	3.04 %	2.82 %
Weighted average interest rate during period ¹	3.00 %	2.15 %

¹Excludes the impact of interest rate swaps. Refer to Note 18 to our consolidated financial statements for additional information about derivative financial instruments.

Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities decreased \$0.3 million, or 2.3%, to \$14.2 million at December 31, 2023, compared to \$14.5 million at December 31, 2022. The decrease was due primarily to decreases of \$2.9 million in other liabilities, \$1.6 million in accrued taxes, \$0.2 million in accrued salary and benefits and \$0.4 million in accrued property taxes, partially offset by increases of \$3.7 million in the reserve for unfunded commitments as a result of the adoption of CECL in 2023, as well as new origination activity, and an increase of \$0.7 million in derivative liability due to changes in fair value.

Liquidity and Capital Resources

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

The Company holds cash and investment securities that qualify as liquid assets to maintain adequate liquidity to ensure safe and sound operations and meet its financial commitments. At December 31, 2023, on a consolidated basis, the Company had \$0.9 billion in cash and cash equivalents and investment securities available-for-sale, and \$22.1 million in loans held-for-sale that were generally available for our cash needs. The Company can also generate funds from wholesale funding sources and collateralized borrowings. At December 31, 2023, the Bank had the ability to borrow an additional \$1.2 billion from the FHLB, the Federal Reserve and correspondent bank Fed Funds lines of credit.

The Company is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, the Company is responsible for paying any dividends declared to its common shareholders and interest and principal on outstanding debt. The Company’s primary sources of funds are cash maintained at the holding company level and dividends from the Bank, the payment of which is subject to regulatory limits. At December 31, 2023, the Company, on an unconsolidated basis, had \$11.6 million in cash generally available for its cash needs, which is in excess of its current annual regular shareholder dividend and operating expenses.

The Company uses its sources of funds primarily to meet ongoing financial commitments, including withdrawals by depositors, credit commitments to borrowers, operating expenses and capital expenditures. At December 31, 2023, approved outstanding loan commitments, including unused lines of credit and standby letters of credit, amounted to \$755.4 million. Certificates of deposits and brokered certificates of deposits scheduled to mature in one year or less at December 31, 2023 totaled \$1.3 billion.

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

The following table presents the Company's significant contractual obligations as of December 31, 2023.

<i>(dollars in thousands)</i>	Note Reference	Payments Due In				Total
		Less than 1 year	1-3 years	3-5 years	More than 5 years	
Deposits and brokered deposits without stated maturity ¹	8	2,193,959	—	—	—	2,193,959
Certificates of deposits and brokered deposits ¹	8	1,332,424	274,626	259,564	6,400	1,873,014
FHLB advances ^{1,2}	9	255,003	100,000	135,000	124,931	614,934
Subordinated debt ¹	10	—	—	—	107,000	107,000
Total contractual obligations		<u>\$3,781,386</u>	<u>\$ 374,626</u>	<u>\$ 394,564</u>	<u>\$ 238,331</u>	<u>\$4,788,907</u>

¹ Amounts do not include associated interest payments.

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

In October 2021, the Company's Board of Directors approved a stock repurchase program authorizing the repurchase of up to \$30.0 million of the Company's outstanding common stock from time to time on the open market or in privately negotiated transactions. In October 2022, the Company's Board of Directors increased the authorization to \$35.0 million. The Company repurchased a total of 855,956 shares at an average price of \$36.31 per share under the program through December 19, 2022.

On December 19, 2022, the Company's Board of Directors approved a new stock repurchase program to replace the prior program. The new program authorized the repurchase of up to \$25.0 million of our outstanding common stock from time to time on the open market or in privately negotiated transactions. The stock repurchase authorization is scheduled to expire on December 31, 2024. Under this program, the Company repurchased 502,525 shares of common stock at an average price of \$18.40 per share, during 2023 and 46,497 shares of common stock at an average price of \$24.42 per share, during 2022. As of December 31, 2023, the Company had \$14.6 million of remaining authority under the program. Various factors determine the amount and timing of our share repurchases, including our capital requirements, organic growth and other strategic opportunities, economic and market conditions (including the trading price of our stock), and regulatory and legal considerations. See Part II, Item 5, of this report for information regarding recent repurchase activity and our remaining authority under the program.

Reconciliation of Non-GAAP Financial Measures

This Management's Discussion and Analysis contains financial information determined by methods other than in accordance with GAAP. Non-GAAP financial measures, specifically tangible common equity, tangible assets, tangible book value per common share, tangible common equity to tangible assets, average tangible common equity, return on average tangible common equity, total interest income - FTE, net interest income - FTE, net interest margin - FTE, adjusted total revenue, adjusted noninterest income, adjusted noninterest expense, adjusted income before income taxes, adjusted income tax provision, adjusted net income, adjusted diluted earnings per share, adjusted return on average assets, adjusted return on average shareholders' equity and adjusted return on average tangible common equity are used by the Company's management to measure the strength of its capital and analyze profitability, including its ability to generate earnings on tangible capital invested by its shareholders. The Company also believes that it is standard practice in the banking industry to present total interest income, net interest income and net interest margin on a fully-taxable equivalent basis, as those measures provide useful information for peer comparisons. Although the Company believes these non-GAAP financial measures provide a greater understanding of its business, they should not be considered a substitute for financial measures determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP financial measures that may be presented by other companies. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures are included in the following tables for the last three completed fiscal years ended on December 31.

	At or For The Twelve Months Ended December 31,		
	2023	2022	2021
(dollars in thousands, except share and per share data)			
Total equity - GAAP	\$ 362,795	\$ 364,974	\$ 380,338
Adjustments:			
Goodwill	(4,687)	(4,687)	(4,687)
Tangible common equity	<u>\$ 358,108</u>	<u>\$ 360,287</u>	<u>\$ 375,651</u>
Total assets - GAAP	\$ 5,167,572	\$ 4,543,104	\$ 4,210,994
Adjustments:			
Goodwill	(4,687)	(4,687)	(4,687)
Tangible assets	<u>\$ 5,162,885</u>	<u>\$ 4,538,417</u>	<u>\$ 4,206,307</u>
Total common shares outstanding	8,644,451	9,065,883	9,754,455
Book value per common share	\$ 41.97	\$ 40.26	\$ 38.99
Effect of goodwill	(0.54)	(0.52)	(0.48)
Tangible book value per common share	<u>\$ 41.43</u>	<u>\$ 39.74</u>	<u>\$ 38.51</u>
Total shareholders' equity to assets	7.02 %	8.03 %	9.03 %
Effect of goodwill	(0.08 %)	(0.09 %)	(0.10 %)
Tangible common equity to tangible assets	<u>6.94 %</u>	<u>7.94 %</u>	<u>8.93 %</u>
Total average equity - GAAP	\$ 357,800	\$ 372,844	\$ 358,105
Adjustments:			
Average goodwill	(4,687)	(4,687)	(4,687)
Average tangible common equity	<u>\$ 353,113</u>	<u>\$ 368,157</u>	<u>\$ 353,418</u>
Return on average shareholders' equity	2.35 %	9.53 %	13.44 %
Effect of goodwill	0.03 %	0.12 %	0.17 %
Return on average tangible common equity	<u>2.38 %</u>	<u>9.65 %</u>	<u>13.61 %</u>
Total interest income	\$ 239,442	\$ 156,908	\$ 133,883
Adjustments:			
Fully-taxable equivalent adjustments ¹	5,233	5,355	5,453
Total interest income - FTE	<u>\$ 244,675</u>	<u>\$ 162,263</u>	<u>\$ 139,336</u>
Net interest income	\$ 74,904	\$ 97,093	\$ 86,556
Adjustments:			
Fully-taxable equivalent adjustments ¹	5,233	5,355	5,453
Net interest income - FTE	<u>\$ 80,137</u>	<u>\$ 102,448</u>	<u>\$ 92,009</u>
Net interest margin	1.56 %	2.41 %	2.11 %
Effect of fully-taxable equivalent adjustments ¹	0.11 %	0.13 %	0.14 %
Net interest margin - FTE	<u>1.67 %</u>	<u>2.54 %</u>	<u>2.25 %</u>

¹Assuming a 21% tax rate

	At or For The Twelve Months Ended December 31,		
	2023	2022	2021
<i>(dollars in thousands, except share and per share data)</i>			
Total Revenue- GAAP	\$ 101,029	\$ 118,350	\$ 119,400
Adjustments:			
Mortgage-related revenue	(65)	—	—
Gain on sale of premises and equipment	—	—	(2,523)
Subordinated debt redemption cost	—	—	810
Adjusted total revenue	<u>\$ 100,964</u>	<u>\$ 118,350</u>	<u>\$ 117,687</u>
Noninterest income - GAAP	\$ 26,125	\$ 21,257	\$ 32,844
Adjustments:			
Mortgage-related revenue	(65)	—	—
Gain on sale of premises and equipment	—	—	(2,523)
Adjusted noninterest income	<u>\$ 26,060</u>	<u>\$ 21,257</u>	<u>\$ 30,321</u>
Noninterest expense - GAAP	\$ 79,436	\$ 73,273	\$ 61,798
Adjustments:			
Mortgage-related costs	(3,052)	—	—
Acquisition-related expenses	—	(273)	(163)
IT Termination fee	—	—	(475)
Nonrecurring consulting fee	—	(875)	—
Write-down of Software	—	(125)	—
Discretionary inflation bonus	—	(531)	—
Accelerated equity compensation	—	(289)	—
Adjusted noninterest expense	<u>\$ 76,384</u>	<u>\$ 71,180</u>	<u>\$ 61,160</u>
Income before income taxes - GAAP	\$ 4,940	\$ 40,100	\$ 56,572
Adjustments: ¹			
Mortgage-related revenue	(65)	—	—
Mortgage-related costs	3,052	—	—
Gain on sale of premises and equipment	—	—	(2,523)
Partial charge-off of C&I participation loan	6,914	—	—
Acquisition-related expenses	—	273	163
IT Termination fee	—	—	475
Nonrecurring consulting fee	—	875	—
Write-down of Software	—	125	—
Subordinated debt redemption cost	—	—	810
Discretionary inflation bonus	—	531	—
Accelerated equity compensation	—	289	—
Adjusted income before income taxes	<u>\$ 14,841</u>	<u>\$ 42,193</u>	<u>\$ 55,497</u>
Income tax provision - GAAP	\$ (3,477)	\$ 4,559	\$ 8,458
Adjustments: ¹			
Mortgage-related revenue	(14)	—	—
Mortgage-related costs	641	—	—
Gain on sale of premises and equipment	—	—	(530)
Partial charge-off of C&I participation loan	1,452	—	—
Acquisition-related expenses	—	57	34
IT Termination fee	—	—	100
Nonrecurring consulting fee	—	184	—
Write-down of Software	—	26	—
Subordinated debt redemption cost	—	—	170
Discretionary inflation bonus	—	112	—
Accelerated equity compensation	—	61	—
Adjusted income tax provision	<u>\$ (1,398)</u>	<u>\$ 4,999</u>	<u>\$ 8,232</u>

¹ Assuming a 21% tax rate

	At or For The Twelve Months Ended December 31,		
	2023	2022	2021
<i>(dollars in thousands, except share and per share data)</i>			
Net income - GAAP	\$ 8,417	\$ 35,541	\$ 48,114
Adjustments:			
Mortgage-related revenue	(51)	—	—
Mortgage-related costs	2,411	—	—
Partial charge-off of C&I participation loan	5,462	—	—
Gain on sale of premises and equipment	—	—	(1,993)
IT Termination fee	—	—	375
Acquisition-related expenses	—	216	129
Nonrecurring consulting fee	—	691	—
Write-down of Software	—	99	—
Subordinated debt redemption cost	—	—	640
Discretionary inflation bonus	—	419	—
Accelerated equity compensation	—	228	—
Adjusted net income	<u>\$ 16,239</u>	<u>\$ 37,194</u>	<u>\$ 47,265</u>
Diluted average common shares outstanding	8,858,890	9,595,115	9,976,261
Diluted earnings per share - GAAP	\$ 0.95	\$ 3.70	\$ 4.82
Adjustments:			
Mortgage-related revenue	(0.01)	—	—
Mortgage-related costs	0.27	—	—
Effect of gain on sale of premises and equipment	—	—	(0.19)
Effect of partial charge-off of C&I participation loan	0.62	—	—
Effect of acquisition-related expenses	—	0.02	0.01
Effect of IT termination fee	—	—	0.04
Effect of nonrecurring consulting fee	—	0.07	—
Effect of write-down of software	—	0.01	—
Effect of subordinated debt redemption cost	—	—	0.06
Effect of discretionary inflation bonus	—	0.04	—
Effect of accelerated equity compensation	—	0.02	—
Adjusted diluted earnings per share	<u>\$ 1.83</u>	<u>\$ 3.86</u>	<u>\$ 4.74</u>
Return on average assets	0.17 %	0.85 %	1.14%
Effect of mortgage-related revenue	0.00 %	0.00 %	0.00 %
Effect of mortgage-related costs	0.05 %	0.00 %	0.00 %
Effect of gain on sale of premises and equipment	0.00 %	0.00 %	(0.05%)
Effect of partial charge-off of C&I participation loan	0.11 %	0.00 %	0.00 %
Effect of acquisition-related expenses	0.00 %	0.01 %	0.00 %
Effect of IT termination fee	0.00 %	0.00 %	0.01 %
Effect of nonrecurring consulting fee	0.00 %	0.02 %	0.00 %
Effect of write-down of software	0.00 %	0.00 %	0.00 %
Effect of subordinated debt redemption cost	0.00 %	0.00 %	0.02 %
Effect of discretionary inflation bonus	0.00 %	0.01 %	0.00 %
Effect of accelerated equity compensation	0.00 %	0.01 %	0.00 %
Adjusted return on average assets	<u>0.33 %</u>	<u>0.90 %</u>	<u>1.12 %</u>

	At or For The Twelve Months Ended December 31,		
	2023	2022	2021
<i>(dollars in thousands, except share and per share data)</i>			
Return on average shareholders' equity	2.35 %	9.53 %	13.44 %
Effect of mortgage-related revenue	(0.01)%	0.00 %	0.00 %
Effect of mortgage-related costs	0.67 %	0.00 %	0.00 %
Effect of gain on sale of premises and equipment	0.00 %	0.00 %	(0.56%)
Effect of partial charge-off of C&I participation loan	1.53 %	0.00 %	0.00 %
Effect of acquisition-related expenses	0.00 %	0.06 %	0.04 %
Effect of IT termination fee	0.00 %	0.00 %	0.10 %
Effect of nonrecurring consulting fee	0.00 %	0.19 %	0.00 %
Effect of write-down of software	0.00 %	0.03 %	0.00 %
Effect of subordinated debt redemption cost	0.00 %	0.00 %	0.18 %
Effect of discretionary inflation bonus	0.00 %	0.11 %	0.00 %
Effect of accelerated equity compensation	0.00 %	0.06 %	0.00 %
Adjusted return on average shareholders' equity	4.54 %	9.98 %	13.20 %
Return on average tangible common equity	2.38 %	9.65 %	13.61 %
Effect of mortgage-related revenue	(0.01)%	0.00 %	0.00 %
Effect of mortgage-related costs	0.68 %	0.00 %	0.00 %
Effect of partial charge-off of C&I participation loan	1.55 %	0.00 %	0.00 %
Effect of gain on sale of premises and equipment	0.00 %	0.00 %	(0.56%)
Effect of acquisition-related expenses	0.00 %	0.06 %	0.04 %
Effect of IT termination fee	0.00 %	0.00 %	0.10 %
Effect of nonrecurring consulting fee	0.00 %	0.19 %	0.00 %
Effect of write-down of software	0.00 %	0.03 %	0.00 %
Effect of subordinated debt redemption cost	0.00 %	0.00 %	0.18 %
Effect of discretionary inflation bonus	0.00 %	0.11 %	0.00 %
Effect of accelerated equity compensation	0.00 %	0.06 %	0.00 %
Adjusted return on average tangible common equity	4.60 %	10.10 %	13.37 %

Critical Accounting Policies and Estimates

Adoption of new accounting standards

ASU 2016 - 13

On January 1, 2023, the Company adopted ASU 2016-03 Financial Instruments - Credit losses (“ASC 326”): Measurement of Credit Losses on Financial Instruments, as amended, which replaces the incurred loss methodology with an expected credit loss (“CECL”) methodology. The CECL estimate is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures, including loan commitments, standby letters of credit, financial guarantees and other similar instruments. Additionally, ASC 326 resulted in changes to the accounting for available-for-sale and held-to-maturity debt securities.

The Company adopted ASC 326 for all financial assets measured at amortized cost, available-for-sale securities and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326, while prior period amounts continue to be reported in accordance with previously applicable U.S. GAAP. The Company recorded a net decrease to retained earnings of \$4.5 million as of January 1, 2023 for the cumulative effect of adopting ASC 326. The net adjustment to allowance for credit losses (“ACL”) includes \$2.3 million related to loans, \$1.9 million related to off-balance sheet credit exposures and \$0.3 million related to held-to-maturity debt securities.

ACL - Loans

The ACL for loans represents management's estimate of all expected credit losses over the expected life of the Company's existing loan portfolio. Management estimates the ACL balance using relevant available information about the collectability of cash flows, from internal and external sources, including historical information relating to past events, current conditions, and reasonable and supportable forecasts of future economic conditions. When the Company is unable to forecast future economic events, management may revert to historical information.

Accrued interest receivable on loans totaled \$20.9 million as of December 31, 2023 and is excluded from the estimate of credit losses. The Company made the accounting policy election to not measure an ACL for accrued interest receivable. Accrued interest deemed uncollectible will be written off through interest income.

ACL - Loans - Collectively Evaluated

The ACL is measured on a collective pool basis when similar risk characteristics exist.

The Company utilized a discounted cash flow (“DCF”) method to estimate the quantitative portion of the allowance for credit losses for loans evaluated on a collective pooled basis. For each segment, a loss driver analysis was performed in order to identify loss drivers and create a regression model for use in forecasting cash flows.

In creating the DCF model, the Company has established a one-year reasonable and supportable forecast period with a one-year straight line reversion to the long-term historical average. Due to its minimal loss history, the Company elected to use peer data for a more reasonable calculation.

Key inputs into the DCF model include loan-level detail, including the amortized cost basis of individual loans, payment structure, loss history, and forecasted loss drivers. The Company utilizes a third party to provide economic forecasts under various scenarios, which are assessed quarterly considering the scenarios in the context of the current economic environment and loss risk.

Expected credit losses are estimated over the contractual term of the loans and adjusted for prepayments when appropriate. The contractual term excludes extensions, renewals, and modifications unless the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

Additional key assumptions in the DCF model include the probability of default (“PD”), loss given default (“LGD”), and prepayment/curtailment rates. The Company utilizes the model-driven PD and a LGD derived from a method referred to as Frye Jacobs. The Frye Jacobs method is a mathematical formula that traces the relationship between LGD and PD over time and

projects the LGD based on the level of PD forecasted. In all cases, the Frye Jacobs method is utilized to calculate LGDs during the forecast period, reversion period and long-term historical average. Prepayment and curtailment rates were calculated through third party analysis of the Company's own data.

Qualitative factors for the DCF and weighted-average remaining maturity methodologies include the following:

- Changes in lending policies and procedures, including changes in underwriting standards and collections, charge-offs and recovery practices
- Changes in international, national, regional and local conditions
- Changes in the nature and volume of the portfolio and terms of loans
- Changes in the experience, depth and ability of lending management
- Changes in the volume and severity of past due loans and other similar conditions
- Changes in the quality of the organization's loan review system
- Changes in the value of underlying collateral for collateral dependent loans
- The existence and effect of any concentrations of credit and changes in the levels of such concentrations
- The effect of other external factors (i.e. competition, legal and regulatory requirements) on the level of estimated credit losses

ACL - Loans - Individually Evaluated

Loans that do not share risk characteristics are evaluated on an individual basis and are excluded from the collective evaluation. The Company has determined that any loans which have been placed on nonaccrual status will be individually evaluated. Individual analysis will establish a specific reserve for loans, if necessary. Specific reserves on nonaccrual loans are typically based on management's best estimate of the fair value of collateral securing these loans, adjusted for selling costs as necessary.

ACL - Off-Balance Sheet Credit Exposures

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance on off-balance sheet credit exposure is recorded as a liability and adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. Funding rates are based on a historical analysis of the Company's portfolio, while estimates of credit losses are determined using the same loss rates as funded loans.

Modified Loans to Borrowers Experiencing Financial Difficulty

Concurrent with the adoption of ASU 2016-03, the Company adopted ASU 2022-02 "Financial Instruments-Credit Losses (ASC 326): Troubled Debt restructurings and Vintage Disclosures," as amended. The update eliminated the accounting guidance for troubled debt restructurings ("TDRs") by creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty.

ACL - Available-For-Sale ("AFS") Debt Securities

For AFS debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For AFS debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors, such as interest rates or market conditions. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded. Changes in the ACL are recorded as a provision for, or recovery of, credit loss expense. Losses are charged against the allowance when management believes that uncollectibility of an AFS debt security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on AFS debt securities totaled \$2.9 million at December 31, 2023 and is excluded from the estimate of credit losses. The Company made the policy election to exclude accrued interest from the amortized cost basis of AFS debt securities and report accrued interest separately on the condensed consolidated balance sheet.

ACL - Held-To-Maturity ("HTM") Debt Securities

Management measures expected credit losses on HTM debt securities on a collective basis by major security type. Accrued interest receivable on HTM debt securities totaled \$1.2 million at December 31, 2023 and is excluded from the estimate of credit losses. The Company made the accounting policy election to not measure an ACL for accrued interest. Accrued interest deemed uncollectible will be written off through interest income. The HTM securities portfolio includes municipal securities, residential mortgage-backed-securities, commercial mortgage-backed securities and corporate securities. All residential and commercial mortgage-backed securities are U.S. government issued or sponsored and substantially all municipal and corporate securities are rated investment grade or above.

The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. At the time of adoption, the estimated reserve was \$0.3 million.

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

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

Recent Accounting Pronouncements

Refer to Note 22 to our consolidated financial statements.

Off-Balance Sheet Arrangements

In the ordinary course of business, we may enter into financial transactions to extend credit, engage in interest rate swaps or other forms of commitments that may be considered off-balance sheet arrangements. Interest rate swaps were arranged to receive hedge accounting treatment and were classified as either fair value or cash flow hedges. Fair value hedges were purchased to convert certain fixed rate assets to floating rate. Cash flow hedges were used to convert certain variable rate liabilities into fixed rate liabilities. At December 31, 2023 and December 31, 2022, we had interest rate swaps with a notional amount of \$200.0 million and \$260.0 million, respectively. Additionally, prior to the Company's decision to exit its consumer mortgage business in the first quarter 2023, we entered into forward contracts related to our mortgage banking business to hedge the exposures we had from commitments to extend new residential mortgage loans to our customers and from our mortgage loans held-for-sale. At December 31, 2023, the Company did not have any commitments to sell residential real estate loans. At December 31, 2022, the Company had commitments to sell residential real estate loans of \$17.0 million. Refer to Note 18 to our consolidated financial statements for additional information about derivative financial instruments.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

We monitor the Company's interest rate risk position using income simulation models and economic value of equity ("EVE") sensitivity analysis that capture both short-term and long-term interest rate risk exposure. Income simulation involves forecasting net interest income ("NII") under a variety of interest rate scenarios. We use EVE sensitivity analysis to understand the impact of changes in interest rates on long-term cash flows, income and capital. EVE is calculated by discounting the cash flows for all balance sheet instruments under different interest-rate scenarios. Modeling the sensitivity of NII and EVE to changes in market interest rates is highly dependent on the assumptions incorporated into the modeling process, especially those pertaining to non-maturity deposit accounts. These assumptions are reviewed and refined on an ongoing basis by the Company. We continually model our NII and EVE positions with various interest rate scenarios and assumptions of future balance sheet composition. We utilize implied forward rates as its base case scenario which reflects market expectations for rate increases over the next 24 months. Presented below is the estimated impact on our NII and EVE position as of December 31, 2023, assuming a static balance sheet and instantaneous parallel shifts in interest rates:

% Change from Base Case for Instantaneous Parallel Changes in Rates					
	Implied Forward Curve -200 Basis Points	Implied Forward Curve -100 Basis Points	Base Implied Forward Curve	Implied Forward Curve +50 Basis Points	Implied Forward Curve +100 Basis Points
NII - Year 1	20.32 %	10.83 %	N/A	(4.51 %)	(8.86 %)
NII - Year 2	43.94 %	38.11 %	29.04 %	24.52 %	20.17 %
EVE	26.38 %	16.02 %	N/A	(6.93 %)	(13.75 %)

To supplement the instantaneous rate shocks required by regulatory guidance, we also calculate our interest rate risk position assuming a gradual change in market interest rates. This gradual change is commonly referred to as a "rate ramp" and evenly allocates a change in interest rates over a specified time period.

Presented below is the estimated impact on our NII and EVE position as of December 31, 2023, assuming a static balance sheet and gradual parallel shifts in interest rates over a twelve-month period:

% Change from Base Case for Gradual Changes in Rates					
	Implied Forward Curve -200 Basis Points	Implied Forward Curve -100 Basis Points	Base Implied Forward Curve	Implied Forward Curve +50 Basis Points	Implied Forward Curve +100 Basis Points
NII - Year 1	7.78 %	4.16 %	N/A	(2.43 %)	(4.92 %)
NII - Year 2	44.76 %	38.44 %	29.04 %	23.18 %	17.18 %
EVE	24.22 %	14.85 %	N/A	(7.67 %)	(15.39 %)

The NII and EVE figures presented in both tables above are reflective of a static balance sheet, and do not incorporate either balance sheet growth or strategies to increase net interest income while managing volatility arising from shifts in market interest rates. As such, it is likely that actual results will differ from what is presented in the tables above. Balance sheet strategies to achieve such objective may include:

- Increasing the proportion of low-duration or variable-rate loans to total loans, including organic growth in SBA, construction or C&I lending
- Selling longer-term fixed rate loans
- Increasing the proportion of lower cost non-maturity deposits to total deposits
- Extending the duration of wholesale funding
- Executing derivative strategies to synthetically extend liability or shorten asset duration
- Repositioning the investment portfolio to manage its duration

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements and notes thereto required pursuant to this Item begin on page F-1 of this Annual Report on Form 10-K.

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

The Company performed an evaluation under the supervision and with the participation of management, including the Company's principal executive officer and principal financial officer, to assess the effectiveness of the design and operation of our disclosure controls and procedures under the Exchange Act. Based on that evaluation, our management, including our principal executive officer and principal financial officer, concluded that our disclosure controls and procedures were effective as of December 31, 2023.

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

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company, including accounting and other internal control systems that, in the opinion of management, provide reasonable assurance that (1) transactions are properly authorized, (2) the assets are properly safeguarded, and (3) transactions are properly recorded and reported to permit the preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States. The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2023. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013). Based on that assessment, management concluded that, as of December 31, 2023, the Company's internal control over financial reporting was effective based on those criteria. The Company's internal control over financial reporting

as of December 31, 2023 has been audited by FORVIS, LLP, an independent registered public accounting firm, as stated in its report appearing on page F-2.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting during the quarter ended December 31, 2023, that has materially affected or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None of our directors or officers (as defined in Rule 16a-1(f) of the Securities Exchange Act) adopted, modified, or terminated any contract, instruction, or written plan for the purchase or sale of our securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) of the Securities Exchange Act or any non-Rule 10b5-1 trading arrangement (as defined in Item 408(c) of Regulation S-K) during the fiscal quarter ended December 31, 2023.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not Applicable.

PART III

Certain information required by Part III is incorporated by reference from our definitive Proxy Statement for our 2024 Annual Meeting of Shareholders (the “Proxy Statement”), which we intend to file with the SEC pursuant to Regulation 14A within 120 days after December 31, 2023. Except for those portions specifically incorporated by reference from our Proxy Statement, no other portions of the Proxy Statement are deemed to be filed as part of this report.

Item 10. Directors, Executive Officers and Corporate Governance

Information about our Executive Officers

Our executive officers are as follows:

Name	Age	Position
David B. Becker	70	Chairman, Chief Executive Officer and Director
Nicole S. Lorch	49	President, Chief Operating Officer and Secretary
Kenneth J. Lovik	54	Executive Vice President and Chief Financial Officer

David B. Becker has served as our Chairman of the Board since 2006, as our Chief Executive Officer since 2007, and as our President from 2007 to June 2021. 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 Secretary since June of 2022 and as President and Chief Operating Officer since June 2021. Previously, she served as Executive Vice President and Chief Operating Officer since January 2017. Ms. Lorch joined the Company as Director of Marketing in 1999 and served as Vice President, Marketing & Technology from 2003 to 2011 and Senior Vice President, Retail Banking from 2011 to January 2017. She previously served as Director of Marketing at Virtual Financial Services, an online banking services provider, from 1996 to 1999.

Kenneth J. Lovik has served as Executive Vice President and Chief Financial Officer of the Company since January 2017. Mr. Lovik joined the Company in August 2014 as Senior Vice President and Chief Financial Officer. Previously, he served as Senior Vice President, Investor Relations and Corporate Development, at First Financial Bancorp, a publicly traded bank holding company headquartered in Cincinnati, Ohio, from February 2013 to May 2014. Prior to that, he served as its Vice President, Investor Relations and Corporate Development, from 2010 to February 2013. Before First Financial Bancorp, he was an investment banker at Milestone Advisors LLC, Howe Barnes Hoefer & Arnett, Inc. and A.G. Edwards & Sons, Inc.

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

Code of Business Conduct and Ethics

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

The disclosures in the Proxy Statement under the headings “Proposal 1 - Election of Directors,” “Corporate Governance,” “Shareholder Proposals for 2024 Annual Meeting,” and, if applicable “Delinquent Section 16(a) Reports” are incorporated into this Item by reference.

Item 11. Executive Compensation

Incorporated into this Item by reference is the information in the Proxy Statement regarding the compensation of our named executive officers appearing under the heading “Executive Compensation” (excluding information under the caption “Pay versus Performance”), the information regarding compensation committee interlocks and insider participation under the

heading “Corporate Governance” and the information regarding compensation of non-employee directors under the heading “Director Compensation.”

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

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

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

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

Item 14. Principal Accountant Fees and Services

Incorporated into this Item by reference is the information in the Proxy Statement under the heading “Audit Matters.” The independent registered public accounting firm is FORVIS, LLP (Public Company Accounting Oversight Board Firm ID No. 686) located in Indianapolis, Indiana.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents Filed as Part of this Annual Report on Form 10-K:

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

(b) Exhibits:

Exhibit No.	Description
<u>3.1</u>	<u>Amended and Restated Articles of Incorporation of First Internet Bancorp (incorporated by reference to Exhibit 3.1 to current report on Form 8-K filed May 21, 2020)</u>
<u>3.2</u>	<u>Amended and Restated Bylaws of First Internet Bancorp (incorporated by reference to Exhibit 3.2 to current report on Form 8-K filed May 21, 2020)</u>
<u>4.1</u>	<u>Description of Securities Registered under Section 12 of the Securities Exchange Act of 1934</u>
<u>4.2</u>	<u>Subordinated Indenture, dated as of September 30, 2016, between First Internet Bancorp and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to current report on Form 8-K filed on September 30, 2016)</u>
<u>4.3</u>	<u>Second Supplemental Indenture, dated as of June 12, 2019, between First Internet Bancorp and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2 to current report on Form 8-K filed on June 12, 2019)</u>
<u>4.4</u>	<u>Third Supplemental Indenture, dated as of October 26, 2020, between First Internet Bancorp and U.S. Bank National Association, as trustee (including form of 6.0% Fixed-to-Floating Rate Subordinated Notes due 2030) (incorporated by reference to Exhibit 4.2 to current report on Form 8-K filed October 26, 2020)</u>
<u>4.5</u>	<u>Fourth Supplemental Indenture, dated as of August 16, 2021, between First Internet Bancorp and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2 to current report on Form 8-K filed August 16, 2021)</u>
<u>4.6</u>	<u>Form of Global Note representing 6.0% Subordinated Notes due 2026 (incorporated by reference to Exhibit A included in Exhibit 4.2 to current report on Form 8-K filed on September 30, 2016)</u>
<u>4.7</u>	<u>Form of 3.75% Fixed-to-Floating Rate Subordinated Note due September 1, 2031 (incorporated by reference to Exhibit A-1 and Exhibit A-2 included in Exhibit 4.2 to current report on Form 8-K filed on August 16, 2021)</u>
<u>10.1</u>	<u>First Internet Bancorp 2013 Equity Incentive Plan (incorporated by reference to Appendix A to the definitive proxy statement on Schedule 14A filed April 9, 2013)*</u>
<u>10.2</u>	<u>First Internet Bancorp 2011 Directors' Deferred Stock Plan (incorporated by reference to Exhibit 10.2 to registration statement on Form 10 filed November 30, 2012)*</u>
<u>10.3</u>	<u>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)*</u>

Exhibit No.	Description
<u>10.4</u>	<u>Amendment to Amended and Restated Employment Agreement among First Internet Bank of Indiana, First Internet Bancorp and David B. Becker dated April 20, 2022 (incorporated by reference to Exhibit 10.1 to current report on Form 8-K filed April 25, 2022)*</u>
<u>10.5</u>	<u>Employment Agreement among First Internet Bank of Indiana, First Internet Bancorp and Nicole S. Lorch dated April 20, 2022 (incorporated by reference to Exhibit 10.2 to current report on Form 8-K filed April 25, 2022)*</u>
<u>10.6</u>	<u>Employment Agreement among First Internet Bank of Indiana, First Internet Bancorp and Kenneth J. Lovik dated April 20, 2022 (incorporated by reference to Exhibit 10.3 to current report on Form 8-K filed April 25, 2022)*</u>
<u>10.7</u>	<u>First Internet Bancorp Annual Bonus Plan (incorporated by reference to Exhibit 10.1 to quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2017)*</u>
<u>10.8</u>	<u>Form of Subordinated Note Purchase Agreement, dated as of October 26, 2020, between First Internet Bancorp and the purchaser thereunder (incorporated by reference to Exhibit 10.1 to current report on Form 8-K filed October 26, 2020)</u>
<u>10.9</u>	<u>Form of Management Incentive Award Agreement - Restricted Stock Units under 2013 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2022)*</u>
<u>10.10</u>	<u>Form of Management Incentive Award Agreement - Restricted Stock Units (performance based) under 2013 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2021)*</u>
<u>10.11</u>	<u>Form of Subordinated Note Purchase Agreement, dated August 16, 2021, by and among First Internet Bancorp and the Purchasers* (incorporated by reference to Exhibit 10.1 to current report on Form 8-K filed August 15, 2021)</u>
<u>10.12</u>	<u>First Internet Bancorp 2022 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to current report on Form 8-K filed May 17, 2022)*</u>
<u>10.13</u>	<u>Form of Non-Employee Director Restricted Stock Award Agreement under 2022 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2023)*</u>
<u>10.14</u>	<u>Form of Management Incentive Award Agreement - Restricted Stock Units under 2022 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2023)*</u>
<u>21.1</u>	<u>List of Subsidiaries</u>
<u>23.1</u>	<u>Consent of Independent Registered Public Accounting Firm</u>
<u>24.1</u>	<u>Powers of Attorney</u>
<u>31.1</u>	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer</u>
<u>31.2</u>	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer</u>
<u>32.1</u>	<u>Section 1350 Certifications</u>
<u>97</u>	<u>Compensation Recoupment Policy</u>
101	Financial statements from the Annual Report on Form 10-K of First Internet Bancorp for the period ended December 31, 2023, filed with the SEC on March 13, 2024, formatted in inline extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets at December 31, 2023 and 2022, (ii) the Consolidated Statements of Income for the fiscal years ended December 31, 2023, 2022, and 2021, (iii) the Consolidated Statements of Comprehensive Income for the fiscal years ended December 31, 2023, 2022, and 2021, (iv) the Consolidated Statements of Shareholders' Equity for the fiscal years ended December 31, 2023, 2022, and 2021, (v) Consolidated Statements of Cash Flows for the fiscal years ended December 31, 2023, 2022, and 2021, and (vi) Notes to Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

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

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 13, 2024.

FIRST INTERNET BANCORP

By: /s/ David B. Becker

David B. Becker,
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 13, 2024.

/s/ David B. Becker

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

/s/ Kenneth J. Lovik

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

*

Aasif M. Bade, *Director*

*

Joseph A. Fenech, *Director*

*

Justin P. Christian, *Director*

*

Jean L. Wojtowicz, *Director*

*

Ann Colussi Dee, *Director*

*

John K. Keach, Jr., *Director*

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

By: /s/ David B. Becker

David B. Becker,
Attorney-in-Fact

Reports of Independent Registered Public Accounting Firm

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

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of First Internet Bancorp (the “Company”) as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2023, and the related notes (collectively referred to as the “financial statements”). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 13, 2024, expressed an unqualified opinion thereon.

Emphasis of Matter

As discussed in Note 1, Note 4, and Note 22 to the consolidated financial statements, in 2023, the Company changed its method of accounting for credit losses on financial instruments due to the adoption of Accounting Standards Codification Topic 326: *Financial Instruments – Credit Losses*. Our opinion is not modified with respect to this matter.

Basis for Opinion

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

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

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

Allowance for Credit Losses (ACL) – Loans – Qualitative Adjustments

As described in Note 1, Note 4, and Note 22 of the consolidated financial statements and referred to in the change in accounting principle explanatory paragraph above, on January 1, 2023, the Company adopted ASU 2016-13: *Financial Instruments - Credit losses ("ASC 326"): Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected credit loss ("CECL") methodology.

As of December 31, 2023, the ACL on loans was \$38,774,000. The ACL for loans represents management's estimate of all expected credit losses over the expected life of the Company's existing loan portfolio. Management estimates the ACL balance using relevant available information about the collectability of cash flows, from internal and external sources, including historical information relating to past events, current conditions, and reasonable and supportable forecasts of future economic conditions. When the Company is unable to forecast future economic events, management may revert to historical information. The Company utilized a discounted cash flow ("DCF") method to estimate the quantitative portion of the allowance for credit losses for loans evaluated on a collective pooled basis. Due to its minimal loss history, the Company elected to use peer data for a more reasonable calculation. The Company also includes qualitative adjustments to the allowance based on factors and considerations that have not otherwise been fully accounted for.

We have identified auditing the qualitative adjustments as a critical audit matter as management's determination of the qualitative adjustments used in the ACL is subjective and involves significant management judgments; and our audit procedures related to the qualitative adjustments involved a high degree of auditor judgment and required significant audit effort, including the need to involve more experienced audit personnel.

The primary procedures we performed to address this critical audit matter included:

- Testing the design and operating effectiveness of controls over the qualitative adjustments used in the ACL calculation including controls addressing the:
 - Significant assumptions and judgments applied in the development of the qualitative adjustments.
 - Mathematical accuracy of the qualitative adjustments applied to the loan segments in the ACL calculation.
- Substantively testing management's determination of the qualitative adjustments used in the ACL estimate, including:
 - Testing management's process for developing the qualitative adjustments, which included assessing the relevance and reliability of data used to develop the qualitative adjustments, including evaluating their judgments and assumptions for reasonableness. Among other procedures, our evaluation considered evidence from internal and external sources.
 - Analytically evaluating the qualitative adjustments for directional consistency, testing for reasonableness, and obtaining evidence for significant changes.
 - Testing the mathematical accuracy of the qualitative adjustments applied to the loan segments in the ACL calculation.

/s/ FORVIS, LLP

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

Indianapolis, Indiana
March 13, 2024

Reports of Independent Registered Public Accounting Firm

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

Opinion on the Internal Control Over Financial Reporting

We have audited First Internet Bancorp's (the "Company") internal control over financial reporting as of December 31, 2023 based on criteria established in *Internal Control – Integrated Framework: (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control – Integrated Framework: (2013)* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements of the Company as of December 31, 2023 and 2022, and for each of the three years in the period ended December 31, 2023, and our report dated March 13, 2024, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management's Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

Definitions and Limitations of Internal Control Over Financial Reporting

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

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

/s/ FORVIS, LLP

Indianapolis, Indiana
March 13, 2024

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

	December 31,	
	2023	2022
Assets		
Cash and due from banks	\$ 8,269	\$ 17,426
Interest-bearing demand deposits	397,629	239,126
Total cash and cash equivalents	405,898	256,552
Securities available-for-sale - at fair value (amortized cost of \$513,315 in 2023 and \$436,183 in 2022)	474,855	390,384
Securities held-to-maturity - at amortized cost, net of allowance for credit losses of \$0.3 million in 2023 (fair value of \$207,572 in 2023 and \$168,483 in 2022)	227,153	189,168
Loans held-for-sale (includes \$9,110 at fair value in 2022)	22,052	21,511
Loans	3,840,220	3,499,401
Allowance for credit losses - loans	(38,774)	(31,737)
Net loans	3,801,446	3,467,664
Accrued interest receivable	26,746	21,069
Federal Home Loan Bank of Indianapolis stock	28,350	28,350
Cash surrender value of bank-owned life insurance	40,882	39,859
Premises and equipment, net	73,463	72,711
Goodwill	4,687	4,687
Servicing asset, at fair value	10,567	6,255
Other real estate owned	375	—
Accrued income and other assets	51,098	44,894
Total assets	<u>\$ 5,167,572</u>	<u>\$ 4,543,104</u>
Liabilities and shareholders' equity		
Liabilities		
Noninterest-bearing deposits	\$ 123,464	\$ 175,315
Interest-bearing deposits	3,943,509	3,265,930
Total deposits	4,066,973	3,441,245
Advances from Federal Home Loan Bank	614,934	614,928
Subordinated debt, net of unamortized discounts and debt issuance costs of \$2,162 in 2023 and \$2,468 in 2022	104,838	104,532
Accrued interest payable	3,848	2,913
Accrued expenses and other liabilities	14,184	14,512
Total liabilities	<u>4,804,777</u>	<u>4,178,130</u>
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; 8,644,451 and 9,065,883 shares issued and outstanding in 2023 and 2022, respectively	184,700	192,935
Nonvoting common stock, no par value; 86,221 shares authorized; issued and outstanding - none	—	—
Retained earnings	207,470	205,675
Accumulated other comprehensive loss	(29,375)	(33,636)
Total shareholders' equity	<u>362,795</u>	<u>364,974</u>
Total liabilities and shareholders' equity	<u>\$ 5,167,572</u>	<u>\$ 4,543,104</u>

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,		
	2023	2022	2021
Interest income			
Loans	\$ 192,337	\$ 140,600	\$ 123,467
Securities – taxable	17,189	10,711	7,970
Securities – non-taxable	3,532	1,767	1,017
Other earning assets	26,384	3,830	1,429
Total interest income	239,442	156,908	133,883
Interest expense			
Deposits	143,363	41,832	29,822
Other borrowed funds	21,175	17,983	17,505
Total interest expense	164,538	59,815	47,327
Net interest income	74,904	97,093	86,556
Provision for credit losses - loans	15,454	4,977	1,030
Benefit for credit losses - debt securities held-to-maturity	(42)	—	—
Provision for credit losses - off-balance sheet commitments	1,241	—	—
Net interest income after provision for credit losses	58,251	92,116	85,526
Noninterest income			
Service charges and fees	851	1,071	1,114
Loan servicing revenue	3,833	2,573	1,934
Loan servicing asset revaluation	(1,463)	(1,639)	(1,069)
Mortgage banking activities	76	5,464	15,050
Gain on sale of loans	20,526	11,372	11,598
Gain on sale of premises and equipment	—	—	2,523
Other	2,302	2,416	1,694
Total noninterest income	26,125	21,257	32,844
Noninterest expense			
Salaries and employee benefits	45,322	41,553	38,223
Marketing, advertising and promotion	2,567	3,554	3,261
Consulting and professional fees	3,082	4,826	4,054
Data processing	2,373	1,989	1,649
Loan expenses	5,756	4,435	2,112
Premises and equipment	10,599	10,688	7,063
Deposit insurance premium	3,880	1,152	1,213
Other	5,857	5,076	4,223
Total noninterest expense	79,436	73,273	61,798
Income before income taxes	4,940	40,100	56,572
Income tax (benefit) provision	(3,477)	4,559	8,458
Net income	\$ 8,417	\$ 35,541	\$ 48,114
Income per share of common stock			
Basic	\$ 0.95	\$ 3.73	\$ 4.85
Diluted	0.95	3.70	4.82
Weighted-average number of common shares outstanding			
Basic	8,837,558	9,530,921	9,918,083
Diluted	8,858,890	9,595,115	9,976,261
Dividends declared per share	\$ 0.24	\$ 0.24	\$ 0.24

See Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	2023	2022	2021
Net income	\$ 8,417	\$ 35,541	\$ 48,114
Other comprehensive income (loss)			
Securities available-for-sale			
Net unrealized holding gains (losses) on securities available-for-sale recorded within other comprehensive income before income tax	7,339	(42,336)	(4,087)
Income tax provision (benefit)	1,682	(9,060)	(1,064)
Net effect on other comprehensive income (loss)	5,657	(33,276)	(3,023)
Securities held-to-maturity			
Reclassification of securities from available-for-sale to held-to-maturity	—	(5,402)	—
Amortization of net unrealized holding losses on securities transferred from available-for-sale to held-to-maturity	778	844	—
Income tax provision (benefit)	198	(1,039)	—
Net effect on other comprehensive income (loss)	580	(3,519)	—
Cash flow hedges			
Net unrealized holding (losses) gains on cash flow hedging derivatives recorded within other comprehensive income before income tax	(2,566)	19,091	11,138
Income tax (benefit) provision	(590)	4,893	1,958
Net effect on other comprehensive (loss) income	(1,976)	14,198	9,180
Total other comprehensive income (loss)	4,261	(22,597)	6,157
Comprehensive income	<u>\$ 12,678</u>	<u>\$ 12,944</u>	<u>\$ 54,271</u>

See Notes to Consolidated Financial Statements

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

	Voting and Nonvoting Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance, January 1, 2021	\$ 221,408	\$ 126,732	\$ (17,196)	\$ 330,944
Net income	—	48,114	—	48,114
Other comprehensive income	—	—	6,157	6,157
Dividends declared (\$0.24 per share)	—	(2,415)	—	(2,415)
Repurchased shares of common stock (100,000)	(4,436)	—	—	(4,436)
Recognition of the fair value of share-based compensation	2,393	—	—	2,393
Deferred stock rights and restricted stock units issued in lieu of cash dividends payable on outstanding deferred stock rights and restricted stock units	21	—	—	21
Common stock redeemed for the net settlement of share-based awards	(440)	—	—	(440)
Balance, December 31, 2021	<u>\$ 218,946</u>	<u>\$ 172,431</u>	<u>\$ (11,039)</u>	<u>\$ 380,338</u>
Net income	—	35,541	—	35,541
Other comprehensive loss	—	—	(22,597)	(22,597)
Dividends declared (\$0.24 per share)	—	(2,297)	—	(2,297)
Repurchased shares of common stock (779,956)	(27,780)	—	—	(27,780)
Recognition of the fair value of share-based compensation	2,035	—	—	2,035
Deferred stock rights and restricted stock units issued in lieu of cash dividends payable on outstanding deferred stock rights and restricted stock units	21	—	—	21
Common stock redeemed for the net settlement of share-based awards	(287)	—	—	(287)
Balance, December 31, 2022	<u>\$ 192,935</u>	<u>\$ 205,675</u>	<u>\$ (33,636)</u>	<u>\$ 364,974</u>
Impact of adoption of new accounting standards ⁽¹⁾	—	(4,491)	—	(4,491)
Net income	—	8,417	—	8,417
Other comprehensive income	—	—	4,261	4,261
Dividends declared (\$0.24 per share)	—	(2,131)	—	(2,131)
Repurchased shares of common stock (502,525)	(9,248)	—	—	(9,248)
Excise tax on repurchase of common stock	(92)	—	—	(92)
Recognition of the fair value of share-based compensation	1,258	—	—	1,258
Deferred stock rights and restricted stock units issued in lieu of cash dividends payable on outstanding deferred stock rights and restricted stock units	9	—	—	9
Common stock redeemed for the net settlement of share-based awards	(162)	—	—	(162)
Balance, December 31, 2023	<u>\$ 184,700</u>	<u>\$ 207,470</u>	<u>\$ (29,375)</u>	<u>\$ 362,795</u>

¹ Reflects the impact of adopting Accounting Standards Update ("ASU") 2016-13.

See Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	2023	2022	2021
Operating activities			
Net income	\$ 8,417	\$ 35,541	\$ 48,114
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,748	8,729	8,775
Increase in cash surrender value of bank-owned life insurance	(1,023)	(959)	(948)
Provision for credit losses	16,653	4,977	1,030
Share-based compensation expense	1,258	2,035	2,393
Loans originated for sale	(328,146)	(518,870)	(814,671)
Proceeds from sale of loans originated for sale	342,684	558,817	832,089
Gain on sale of loans	(20,997)	(17,473)	(29,401)
Decrease in fair value of loans held-for-sale	143	184	718
(Gain) loss on derivatives	(384)	(2,569)	1,513
Settlement of derivatives	—	—	(1,859)
Gain on sale of premises and equipment	—	—	(2,523)
Net change in servicing asset	1,463	1,639	1,069
Net deferred income tax	(4,353)	4,632	2,434
Net change in other assets	(6,625)	9,815	7,028
Net change in other liabilities	(3,158)	(3,775)	(921)
Net cash provided by operating activities	<u>11,680</u>	<u>82,723</u>	<u>54,840</u>
Investing activities			
Net loan activity, excluding sales and purchases	(67,851)	(214,761)	316,002
Proceeds from sales of other real estate owned	—	1,188	—
Net proceeds from sales of portfolio loans	—	14,466	21,093
Maturities of securities available-for-sale	53,142	80,223	166,260
Purchase of securities available-for-sale	(130,772)	(12,969)	(282,226)
Maturities and calls of securities held-to-maturity	19,104	7,902	8,525
Purchase of securities held-to-maturity	(53,573)	(41,246)	—
Redemption of Federal Home Loan Bank of Indianapolis stock	—	431	—
Purchase of Federal Home Loan Bank of Indianapolis stock	—	(3,131)	—
Net proceeds from sale of premises and equipment	—	—	8,116
Purchase of premises and equipment	(5,367)	(17,517)	(29,892)
Loans purchased	(284,722)	(412,109)	(168,438)
Other investing activities	(4,464)	(3,510)	4,434
Net cash (used in) provided by investing activities	<u>(474,503)</u>	<u>(601,033)</u>	<u>43,874</u>
Financing activities			
Net change in deposits	623,818	262,286	(91,926)
Cash dividends paid	(2,156)	(2,317)	(2,415)
Net proceeds from issuance of subordinated debt	—	—	58,658
Repayment of subordinated debt	—	—	(35,000)
Repurchase of common stock	(9,340)	(27,780)	(4,436)
Proceeds from advances from Federal Home Loan Bank	475,000	615,000	440,000
Repayment of advances from Federal Home Loan Bank	(475,000)	(515,000)	(440,000)
Other, net	(153)	(287)	(441)
Net cash provided by (used in) financing activities	<u>612,169</u>	<u>331,902</u>	<u>(75,560)</u>
Net increase (decrease) in cash and cash equivalents	<u>149,346</u>	<u>(186,408)</u>	<u>23,154</u>
Cash and cash equivalents, beginning of year	<u>256,552</u>	<u>442,960</u>	<u>419,806</u>
Cash and cash equivalents, end of year	<u>\$ 405,898</u>	<u>\$ 256,552</u>	<u>\$ 442,960</u>
Supplemental disclosures of cash flows information			
Cash paid during the year for interest	163,604	58,920	46,748
Cash paid during the year for taxes	939	2,005	7,045
Loans transferred to other real estate owned	375	—	1,188
Loans transferred to held-for-sale from portfolio	—	14,049	20,145
Cash dividends declared, not paid	519	544	585
Securities purchases settled in subsequent period	2,632	2,997	—
Transfer of available-for-sale mortgage-backed securities to held-to-maturity mortgage-backed securities at fair value	—	96,220	—

See Notes to Consolidated Financial Statements

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

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

Description of Business

The Company was incorporated on September 15, 2005, and consummated a plan of exchange on March 21, 2006, by which the Company became a bank holding company and 100% owner of First Internet Bank of Indiana (the “Bank”). The Company elected to and became a financial holding company, effective as of September 1, 2022.

The Bank offers a wide range of commercial, small business, consumer and municipal banking products and services. The Bank conducts its consumer and small business deposit operations primarily through digital channels on a nationwide basis and has no traditional branch offices. The Bank is subject to competition from other financial institutions. The Bank is regulated by certain state and federal agencies and undergoes periodic examinations by those regulatory authorities.

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

Principles of Consolidation

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

Use of Estimates

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

Securities

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

- Securities that the Company has the positive intent and ability to hold to maturity are classified as “held-to-maturity” and reported at amortized cost.
- Securities that are acquired and held principally for the purpose of selling them in the near term with the objective of generating economic profits on short-term differences in market characteristics are classified as “trading securities” and reported at fair value, with unrealized gains and losses included in earnings. The Company had no securities classified as “trading securities” at December 31, 2023 or 2022.

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- Securities not classified as either “held-to-maturity” or “trading securities” are classified as “available-for-sale” and reported at fair value, with unrealized gains and losses, after applicable taxes, excluded from earnings and reported in a separate component of shareholders’ equity.

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

Loans Held-for-Sale

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

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

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

Revenue Recognition

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

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

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

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

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

Loans

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

For loans recorded at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are recorded in accordance with our revenue recognition policy.

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Adoption of new accounting standards

ASU 2016 - 13

On January 1, 2023, the Company adopted ASU 2016-03 Financial Instruments - Credit losses ("ASC 326"): Measurement of Credit Losses on Financial Instruments, as amended, which replaces the incurred loss methodology with an expected credit loss ("CECL") methodology. The CECL estimate is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures, including loan commitments, standby letters of credit, financial guarantees and other similar instruments. Additionally, ASC 326 resulted in changes to the accounting for available-for-sale debt securities.

The Company adopted ASC 326 for all financial assets measured at amortized cost, available-for-sale securities and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326, while prior period amounts continue to be reported in accordance with previously applicable U.S. GAAP. The Company recorded a net decrease to retained earnings of \$4.5 million as of January 1, 2023 for the cumulative effect of adopting ASC 326. The net adjustment to allowance for credit losses ("ACL") includes \$2.3 million related to loans, \$1.9 million related to off-balance sheet credit exposures and \$0.3 million related to held-to-maturity debt securities.

ACL - Available-For-Sale ("AFS") Debt Securities

For AFS debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For AFS debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors, such as interest rates or market conditions. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded. Changes in the ACL are recorded as a provision for, or recovery of, credit loss expense. Losses are charged against the allowance when management believes that uncollectibility of an AFS debt security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on AFS debt securities totaled \$2.9 million at December 31, 2023 and is excluded from the estimate of credit losses. The Company made the policy election to exclude accrued interest from the amortized cost basis of AFS debt securities and report accrued interest separately on the condensed consolidated balance sheet.

ACL - Held-To-Maturity ("HTM") Debt Securities

Management measures expected credit losses on HTM debt securities on a collective basis by major security type. Accrued interest receivable on HTM debt securities totaled \$1.2 million at December 31, 2023 and is excluded from the estimate of credit losses. The Company made the accounting policy election to not measure an ACL for accrued interest. Accrued interest deemed uncollectible will be written off through interest income. The HTM securities portfolio includes municipal securities, residential mortgage-backed-securities, commercial mortgage-backed securities and corporate securities. All residential and commercial mortgage-backed securities are U.S. government issued or sponsored and substantially all municipal and corporate securities are rated investment grade or above.

The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. At the time of adoption, the estimated reserve was \$0.3 million.

ACL - Loans

The ACL for loans represents management's estimate of all expected credit losses over the expected life of the Company's existing loan portfolio. Management estimates the ACL balance using relevant available information about

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the collectability of cash flows, from internal and external sources, including historical information relating to past events, current conditions, and reasonable and supportable forecasts of future economic conditions. When the Company is unable to forecast future economic events, management may revert to historical information.

Accrued interest receivable on loans totaled \$20.9 million and is excluded from the estimate of credit losses. The Company made the accounting policy election to not measure an ACL for accrued interest receivable. Accrued interest deemed uncollectible will be written off through interest income.

ACL - Loans - Collectively Evaluated

The ACL is measured on a collective pool basis when similar risk characteristics exist.

The Company utilized a discounted cash flow (“DCF”) method to estimate the quantitative portion of the allowance for credit losses for loans evaluated on a collective pooled basis. For each segment, a loss driver analysis was performed in order to identify loss drivers and create a regression model for use in forecasting cash flows.

In creating the DCF model, the Company has established a one-year reasonable and supportable forecast period with a one-year straight line reversion to the long-term historical average. Due to its minimal loss history, the Company elected to use peer data for a more conservative calculation.

Key inputs into the DCF model include loan-level detail, including the amortized cost basis of individual loans, payment structure, loss history, and forecasted loss drivers. The Company utilizes a third party to provide economic forecasts under various scenarios, which are assessed quarterly considering the scenarios in the context of the current economic environment and loss risk.

Expected credit losses are estimated over the contractual term of the loans and adjusted for prepayments when appropriate. The contractual term excludes extensions, renewals, and modifications unless the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

Additional key assumptions in the DCF model include the probability of default (“PD”), loss given default (“LGD”), and prepayment/curtailment rates. The Company utilizes the model-driven PD and a LGD derived from a method referred to as Frye Jacobs. The Frye Jacobs method is a mathematical formula that traces the relationship between LGD and PD over time and projects the LGD based on the level of PD forecasted. In all cases, the Frye Jacobs method is utilized to calculate LGDs during the forecast period, reversion period and long-term historical average. Prepayment and curtailment rates were calculated through third party analysis of the Company’s own data.

Qualitative factors for the DCF include the following:

- Changes in lending policies and procedures, including changes in underwriting standards and collections, charge-offs and recovery practices
- Changes in international, national, regional and local conditions
- Changes in the nature and volume of the portfolio and terms of loans
- Changes in the experience, depth and ability of lending management
- Changes in the volume and severity of past due loans and other similar conditions
- Changes in the quality of the Company’s loan review system
- Changes in the value of underlying collateral for collateral dependent loans
- The existence and effect of any concentrations of credit and changes in the levels of such concentrations
- The effect of other external factors (i.e. competition, legal and regulatory requirements) on the level of estimated credit losses

ACL - Loans - Individually Evaluated

Loans that do not share risk characteristics are evaluated on an individual basis and are excluded from the collective evaluation. The Company has determined that any loans which have been placed on nonaccrual status will be

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individually evaluated. Individual analysis will establish a specific reserve for loans, if necessary. Specific reserves on nonaccrual loans are typically based on management's best estimate of the fair value of collateral securing these loans, adjusted for selling costs as necessary.

ACL - Off-Balance Sheet Credit Exposures

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The ACL for off-balance sheet credit exposure is recorded as a liability and adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. Funding rates are based on a historical analysis of the Company's portfolio, while estimates of credit losses are determined using the same loss rates as funded loans.

Regulatory Capital

As permitted by the federal banking regulatory agencies, the Company has elected the option to delay the impact of the day one adoption of ASC 326. Refer to "Note 14. Regulatory Capital Requirements" for details of the phase-in transition adjustments.

Modified Loans to Borrowers Experiencing Financial Difficulty

Concurrent with the adoption of ASU 2016-03, the Company adopted ASU 2022-02 "Financial Instruments-Credit Losses (ASC 326): Troubled Debt Restructurings and Vintage Disclosures," as amended. The update eliminated the accounting guidance for troubled debt restructurings ("TDRs") by creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty.

Provision for Credit Losses

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

Nonaccrual Loans

Any loan which becomes 90 days delinquent or for which the full collection of principal and interest may be in doubt will be considered for nonaccrual status. At the time a loan is placed on nonaccrual status, all accrued but unpaid interest will be reversed from interest income. Placing a 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.

Individually Evaluated Loans

A loan is individually evaluated, 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 not exceeding 90 days outstanding generally are not individually evaluated. Certain nonaccrual and substantially all delinquent loans more than 90 days past due may be individually evaluated. 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 individually evaluated and nonaccrual loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due.

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

Accounting Standards Codification (“ASC”) Topic 310, *Receivables*, requires that individually evaluated 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.

Policy for Charging Off Loans

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

Federal Home Loan Bank (“FHLB”) of Indianapolis Stock

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

Premises and Equipment

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

Other Real Estate Owned

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

Derivative Financial Instruments

The Company uses derivative financial instruments to help manage exposure to interest rate risk and the effects that changes in interest rates may have on net income and the fair value of assets and liabilities. The Company enters into interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. Additionally, prior to the Company’s decision to exit its consumer mortgage business in the first quarter 2023, we entered into forward contracts related to our mortgage banking business to hedge the exposures we had from commitments to extend new residential mortgage loans to our customers and from our mortgage loans held-for-sale. The forward contracts were entered into in order to economically hedge the effect of changed interest rates resulted from the Company’s commitment to fund the loans.

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

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The IRLCs and forward contracts are not designated as accounting hedges and are recorded at fair value with changes in fair value reflected in noninterest income in the consolidated statements of income. The fair value of derivative instruments with a positive fair value are reported in accrued income and other assets in the consolidated balance sheets, while derivative instruments with a negative fair value are reported in accrued expenses and other liabilities in the consolidated balance sheets.

Fair Value Measurements

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

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

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

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

There were no transfers that occurred and, therefore, recognized, between any of the fair value hierarchy levels at December 31, 2023 or 2022.

Income Taxes

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

The Company files income tax returns in the U.S. federal, Indiana, and other state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local examinations by tax authorities for years before 2019.

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

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Earnings Per Share

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

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

	Year Ended December 31,		
	2023	2022	2021
Basic earnings per share			
Net income available to common shareholders	\$ 8,417	\$ 35,541	\$ 48,114
Weighted average common shares	8,837,558	9,530,921	9,918,083
Basic earnings per common share	\$ 0.95	\$ 3.73	\$ 4.85
Diluted earnings per share			
Net income available to common shareholders	\$ 8,417	\$ 35,541	\$ 48,114
Weighted average common shares	8,837,558	9,530,921	9,918,083
Dilutive effect of equity compensation	21,332	64,194	58,178
Weighted average common and incremental shares	8,858,890	9,595,115	9,976,261
Diluted earnings per common share ¹	\$ 0.95	\$ 3.70	\$ 4.82

¹ Potential dilutive common shares are excluded from the computation of diluted earnings per share in the periods where the effect would be antidilutive. Excluded from the computation of diluted earnings per share were weighted average antidilutive shares totaling 20,797, 2,646 and 28 for the years ended December 31, 2023, 2022 and 2021, respectively.

Share-based Compensation

The Company has a share-based compensation plan using the fair value recognition provisions of ASC Topic 718, *Compensation - Stock Compensation*. The plan is described more fully in Note 11.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available-for-sale, unrealized gains and losses on the transfer of securities available-for-sale to securities held-to-maturity, and unrealized gains and losses on cash flow hedges.

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

Statements of Cash Flows

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

Bank-Owned Life Insurance

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

Goodwill

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

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Servicing Asset

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

Note 2: Cash and Cash Equivalents

At December 31, 2023, the Company's interest-bearing and noninterest-bearing cash accounts at other institutions exceeded the limits for full FDIC insurance coverage by \$8.6 million. In addition, approximately \$382.2 million and \$7.0 million of cash was held by the Federal Reserve Bank of Chicago and the FHLB of Indianapolis, respectively, which are not federally insured.

The Federal Reserve Act authorizes the Federal Reserve Board to establish reserve requirements within specified ranges for the purpose of implementing monetary policy on certain types of deposits and other liabilities of depository institutions. On March 15, 2020, the Federal Reserve Board reduced requirement ratios to zero percent effective March 26, 2020. As such, the Company is not currently required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank.

Note 3: Securities

The following tables summarize securities available-for-sale and securities held-to-maturity as of December 31, 2023 and 2022.

	December 31, 2023				
	Amortized Cost	Gross Unrealized		Fair Value	
		Gains	Losses		
Securities available-for-sale					
U.S. Government-sponsored agencies	\$ 96,404	\$ 402	\$ (1,629)	\$ 95,177	
Municipal securities	69,494	356	(1,404)	68,446	
Agency mortgage-backed securities - residential ¹	237,798	101	(31,250)	206,649	
Agency mortgage-backed securities - commercial	40,215	9	(1,339)	38,885	
Private label mortgage-backed securities - residential	21,742	144	(1,107)	20,779	
Asset-backed securities	8,071	17	(7)	8,081	
Corporate securities	39,591	25	(2,778)	36,838	
Total available-for-sale	<u>\$ 513,315</u>	<u>\$ 1,054</u>	<u>\$ (39,514)</u>	<u>\$ 474,855</u>	

	December 31, 2023					
	Amortized Cost	Gross Unrealized		Fair Value	Allowance for Credit Losses	Net Carrying Value
		Gains	Losses			
Securities held-to-maturity						
Municipal securities	\$ 13,892	\$ 1	\$ (853)	\$ 13,040	\$ (3)	\$ 13,889
Agency mortgage-backed securities - residential	166,750	4	(14,112)	152,642	—	166,750
Agency mortgage-backed securities - commercial	5,767	—	(1,246)	4,521	—	5,767
Corporate securities	41,037	—	(3,668)	37,369	(290)	40,747
Total held-to-maturity	<u>\$ 227,446</u>	<u>\$ 5</u>	<u>\$ (19,879)</u>	<u>\$ 207,572</u>	<u>\$ (293)</u>	<u>\$ 227,153</u>

¹ Includes \$0.4 million of additional premium related to terminated interest rate swaps associated with agency mortgage-backed securities - residential as of December 31, 2023.

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Accrued interest receivable on AFS and HTM securities at December 31, 2023 was \$2.9 million and \$1.2 million, respectively, and is included in accrued interest receivable on the condensed consolidated balance sheet. The Company elected to exclude all accrued interest receivable from securities when estimating credit losses.

Over 95% of mortgage-backed securities (including both AFS and HTM) held by the Company are issued by U.S. government-sponsored entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government and have a long history of no credit losses; therefore, the Company did not record an ACL on these securities.

Additionally, the Company evaluated credit impairment for individual AFS securities that are in an unrealized loss position and determined that the unrealized losses are unrelated to credit quality and are primarily attributable to changes in interest rates and volatility in the financial markets. As the Company does not intend to sell the AFS securities that are in an unrealized loss position, and it is unlikely that it will be required to sell these securities before recovery of their amortized cost basis, the Company did not record an ACL on these securities.

In accordance with the adoption of ASC 326, the Company also evaluated its HTM securities that are in an unrealized loss position and considered issuer bond ratings, historical loss rates for bond ratings and economic forecasts. As a result, the Company recorded in an initial ACL in retained earnings of \$0.3 million on January 1, 2023. The Company reevaluated these securities at December 31, 2023 and determined no additional ACL was necessary.

	December 31, 2022			
	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Securities available-for-sale				
U.S. Government-sponsored agencies	\$ 35,606	\$ —	\$ (1,797)	\$ 33,809
Municipal securities	68,958	458	(2,140)	67,276
Agency mortgage-backed securities - residential ¹	252,066	—	(36,974)	215,092
Agency mortgage-backed securities - commercial	17,142	—	(1,302)	15,840
Private label mortgage-backed securities - residential	11,777	—	(1,322)	10,455
Asset-backed securities	5,000	—	(40)	4,960
Corporate securities	45,634	35	(2,717)	42,952
Total available-for-sale	<u>\$ 436,183</u>	<u>\$ 493</u>	<u>\$ (46,292)</u>	<u>\$ 390,384</u>
	December 31, 2022			
	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Securities held-to-maturity				
Municipal securities	\$ 13,946	\$ —	\$ (1,114)	\$ 12,832
Agency mortgage-backed securities - residential	121,853	—	(15,112)	106,741
Agency mortgage-backed securities - commercial	5,818	—	(1,266)	4,552
Corporate securities	47,551	—	(3,193)	44,358
Total held-to-maturity	<u>\$ 189,168</u>	<u>\$ —</u>	<u>\$ (20,685)</u>	<u>\$ 168,483</u>

¹ Includes \$0.5 million of additional premium related to terminated interest rate swaps associated with agency mortgage-backed securities - residential as of December 31, 2022.

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The carrying value of securities at December 31, 2023 is shown below by their contractual maturity date. Actual maturities will differ because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale	
	Amortized Cost	Fair Value
Within one year	\$ 550	\$ 549
One to five years	31,401	31,865
Five to ten years	69,553	67,120
After ten years	103,985	100,927
	205,489	200,461
Agency mortgage-backed securities - residential	237,798	206,649
Agency mortgage-backed securities - commercial	40,215	38,885
Private label mortgage-backed securities - residential	21,742	20,779
Asset-backed securities	8,071	8,081
Total	<u>\$ 513,315</u>	<u>\$ 474,855</u>
	Held-to-Maturity	
	Amortized Cost	Fair Value
Within one year	\$ 995	\$ 987
One to five years	6,129	5,952
Five to ten years	43,856	39,967
After ten years	3,949	3,503
	54,929	50,409
Agency mortgage-backed securities - residential	166,750	152,642
Agency mortgage-backed securities - commercial	5,767	4,521
Total	<u>\$ 227,446</u>	<u>\$ 207,572</u>

There were no gross realized gains or losses resulting from the sale of AFS securities recognized during the twelve months ended December 31, 2023, December 31, 2022 and December 31, 2021.

As of December 31, 2023, the fair value of AFS securities pledged as collateral was \$662.1 million. The Company pledged these securities to both the FHLB and the Fed Discount Window to increase the Company's borrowing capacity and provide collateral for existing FHLB advances.

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. The total fair value of these investments at December 31, 2023 and 2022 was \$578.9 million and \$527.4 million, which is approximately 85% and 94%, respectively, of the Company's AFS and HTM securities portfolios. As of December 31, 2023, the Company's securities portfolio consisted of 512 securities, of which 434 were in an unrealized loss position. As of December 31, 2022, the Company's security portfolio consisted of 445 securities, of which 434 were in an unrealized loss position. The unrealized losses are related to the categories noted below.

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

The unrealized losses on the Company's investments in securities issued by U.S. Government-sponsored agencies, municipal organizations and corporate entities were caused primarily by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. 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 basis, which may be upon maturity.

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Agency Mortgage-Backed and Private Label Mortgage-Backed Securities

The unrealized losses on the Company's investments in agency mortgage-backed and private label mortgage-backed securities were caused primarily by interest rate changes. The Company expects to recover the amortized cost basis over the terms of the securities. 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 basis, which may be upon maturity.

The following tables show the securities portfolio's gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2023 and 2022:

	December 31, 2023					
	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	\$ 41,934	\$ (161)	\$ 24,579	\$ (1,468)	\$ 66,513	\$ (1,629)
Municipal securities	2,399	(103)	36,193	(1,301)	38,592	(1,404)
Agency mortgage-backed securities - residential	1,089	(5)	194,095	(31,245)	195,184	(31,250)
Agency mortgage-backed securities - commercial	21,561	(50)	14,217	(1,289)	35,778	(1,339)
Private label mortgage-backed securities - residential	3,567	(29)	9,114	(1,078)	12,681	(1,107)
Asset-backed securities	1,654	(7)	—	—	1,654	(7)
Corporate securities	1,680	(365)	24,587	(2,413)	26,267	(2,778)
Total	<u>\$ 73,884</u>	<u>\$ (720)</u>	<u>\$ 302,785</u>	<u>\$ (38,794)</u>	<u>\$ 376,669</u>	<u>\$ (39,514)</u>

	December 31, 2022					
	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	\$ 29,668	\$ (1,008)	\$ 4,141	\$ (789)	\$ 33,809	\$ (1,797)
Municipals	39,557	(1,766)	4,778	(374)	44,335	(2,140)
Agency mortgage-backed securities - residential	170,026	(29,690)	45,066	(7,284)	215,092	(36,974)
Agency mortgage-backed securities - commercial	10,560	(926)	5,280	(376)	15,840	(1,302)
Private label mortgage-backed securities - residential	2,445	(330)	8,010	(992)	10,455	(1,322)
Asset-backed securities	4,960	(40)	—	—	4,960	(40)
Corporate securities	21,568	(1,452)	13,239	(1,265)	34,807	(2,717)
Total	<u>\$ 278,784</u>	<u>\$ (35,212)</u>	<u>\$ 80,514</u>	<u>\$ (11,080)</u>	<u>\$ 359,298</u>	<u>\$ (46,292)</u>

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	December 31, 2022					
	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						
Municipals	\$ 8,160	\$ (661)	\$ 4,258	\$ (453)	\$ 12,418	\$ (1,114)
Agency mortgage-backed securities - residential	68,408	(8,848)	38,332	(6,264)	106,740	(15,112)
Agency mortgage-backed securities - commercial	4,552	(1,266)	—	—	4,552	(1,266)
Corporate securities	36,866	(2,685)	7,492	(508)	44,358	(3,193)
Total	<u>\$ 117,986</u>	<u>\$ (13,460)</u>	<u>\$ 50,082</u>	<u>\$ (7,225)</u>	<u>\$ 168,068</u>	<u>\$ (20,685)</u>

The following table summarizes ratings for the Company's HTM portfolio issued by state and political subdivisions and other securities as of December 31, 2023.

(in thousands)	Securities Held-to-Maturity		
	State and Municipal	Other	Total
Aaa/AAA	\$ —	\$ —	\$ —
Aa1/AA+	9,917	—	9,917
Aa2/AA	1,538	—	1,538
A1/A+	1,794	—	1,794
A2/A	643	5,000	5,643
A3/A-	—	4,509	4,509
Baa1/BBB+	—	8,500	8,500
Baa2/BBB	—	8,500	8,500
Baa3/BBB-	—	12,528	12,528
Ba1/BB+	—	2,000	2,000
Not Rated ¹	—	172,517	172,517
Total	<u>\$ 13,892</u>	<u>\$ 213,554</u>	<u>\$ 227,446</u>

¹ HTM agency mortgage-backed securities - commercial and residential are listed under Other securities as not rated.

There were no amounts reclassified from accumulated other comprehensive loss to the condensed consolidated statements of income during the twelve months ended December 31, 2023, 2022 and 2021.

Equity Investments

Equity investments, largely comprised of non-marketable equity investments, are generally accounted for under equity security accounting. The following tables provide additional information related to investments accounted for under this method.

The carrying amount of each equity investment with a readily determinable fair value or net asset value at December 31, 2023 and 2022 is reflected in the following table:

(dollars in thousands)	2023	2022
GenOpp Financial Fund LP	\$ 2,102	\$ 2,134
Total	<u>\$ 2,102</u>	<u>\$ 2,134</u>

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The carrying amount of the Company's investments in non-marketable equity securities with no readily determinable fair value and amounts recognized in earnings on a cumulative basis as of December 31, 2023 and for the years ended December 31, 2023 and 2022 is reflected in the following table:

<i>(dollars in thousands)</i>	2023	2022
Carrying value ¹	\$ 12,374	\$ 8,067
Carrying value adjustments	—	—
Impairment	—	—
Upward changes for observable prices	—	—
Downward changes for observable prices	—	—
Net change	<u>\$ 12,374</u>	<u>\$ 8,067</u>

¹ Exclusive of \$11.5 million and \$13.0 million in unfunded commitments as of December 31, 2023, and 2022, respectively.

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Note 4: Loans

Categories of loans include:

	December 31,	
	2023	2022
Commercial loans		
Commercial and industrial	\$ 129,349	\$ 126,108
Owner-occupied commercial real estate	57,286	61,836
Investor commercial real estate	132,077	93,121
Construction	261,750	181,966
Single tenant lease financing	936,616	939,240
Public finance	521,764	621,032
Healthcare finance	222,793	272,461
Small business lending	218,506	123,750
Franchise finance	525,783	299,835
Total commercial loans	3,005,924	2,719,349
Consumer loans		
Residential mortgage	395,648	383,948
Home equity	23,669	24,712
Other consumer	377,614	324,598
Total consumer loans	796,931	733,258
Total commercial and consumer loans	3,802,855	3,452,607
Net deferred loan origination costs, premiums and discounts on purchased loans, and other ¹	37,365	46,794
Total loans	3,840,220	3,499,401
Allowance for credit losses	(38,774)	(31,737)
Net loans	\$ 3,801,446	\$ 3,467,664

¹ Includes carrying value adjustment of \$27.8 million and \$32.5 million related to terminated interest rate swaps associated with public finance loans as of December 31, 2023 and December 31, 2022, respectively.

The general risk characteristics specific to each loan portfolio segment are as follows:

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

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 Midwest and Southwest regions of the United States and its loans are often secured by manufacturing and service facilities.

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

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

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

Public Finance: These loans are made on a nationwide basis to governmental and not-for-profit entities to provide both tax-exempt and taxable loans for a variety of purposes including: short-term cash-flow needs; debt refinancing; economic development; quality of life projects; infrastructure improvements; renewable energy projects; 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.

Healthcare Finance: These loans are made on a nationwide basis to healthcare providers, primarily dentists, for practice acquisition financing or refinancing that occasionally includes owner-occupied commercial real estate and equipment purchases. The sources of repayment are primarily based on the identified cash flows from operations of the borrower and related entities and secondarily on the underlying collateral provided by the borrower.

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

Franchise Finance: These loans are made on a nationwide basis through our partnership with ApplePie Capital, which through their deep relationships with franchise brands provides franchisees with financing options for new franchise units, recapitalization, expansion, equipment and working capital. The sources of repayment are either based on identified cash flows from existing operations of the borrower or pro forma cash flow for new franchise locations.

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

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

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

Allowance for Credit Losses (“ACL”) Methodology

The ACL for loans represents management's estimate of all expected credit losses over the expected life of the Company's existing loan portfolio. Management estimates the ACL balance using relevant available information about the collectability of cash flows, from internal and external sources, including historical information relating to past events, current conditions, and reasonable and supportable forecasts of future economic conditions. When the Company is unable to forecast future economic events, management may revert to historical information.

The Company's methodologies incorporate a one-year reasonable and supportable forecast period with a one-year straight line reversion to the long-term historical average.

The ACL methodology may also consider other adjustments to address changes in conditions, trends, and circumstances such as local industry changes that could have a significant impact on the risk profile of the loan portfolio and provide for adjustments that may not be reflected and/or captured in the historical loss data. These factors include: lending policies, imprecision in forecasting future economic conditions, loan profile, lending staff, problem loan trends, loan review, collateral, credit concentration, or other internal and external factors.

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The Company also includes qualitative adjustments to the ACL based on factors and considerations that have not otherwise been fully accounted for. Qualitative adjustments include, but are not limited to:

- Changes in lending policies and procedures, including changes in underwriting standards and collections, charge-offs and recovery practices
- Changes in international, national, regional and local conditions
- Changes in the nature and volume of the portfolio and terms of loans
- Changes in the experience, depth and ability of lending management
- Changes in the volume and severity of past due loans and other similar conditions
- Changes in the quality of the Company's loan review system
- Changes in the value of underlying collateral for collateral dependent loans
- The existence and effect of any concentrations of credit and changes in the levels of such concentrations
- The effect of other external factors (i.e. competition, legal and regulatory requirements) on the level of estimated credit losses

The ACL is measured on a collective or pool basis when similar risk characteristics exist. The Company segments its portfolio generally by Federal Financial Institutions Examination Council ("FFIEC") Call Report codes that align with its lines of business. Additional sub-segmentation may be utilized to identify groups of loans with unique risk characteristics relative to the rest of the portfolio.

Loans that do not share similar risk characteristics are evaluated on an individual basis. These evaluations are typically performed on loans with a deteriorated internal risk rating. The allowance for credit loss is determined based on several methods, including estimating the fair value of the underlying collateral or the present value of expected cash flows.

The Company relies on a third-party platform that offers multiple methodologies to measure historical life-of-loan losses.

Modified Loans to Borrowers Experiencing Financial Difficulty

The Company may make modifications to certain loans in order to alleviate temporary difficulties in the borrower's financial condition and/or constraints on the borrower's ability to repay the loan, and to minimize potential losses to the Company. Modifications may include changes in the amortization terms of the loan, reductions in interest rates, acceptance of interest only payments, and/or reductions to the outstanding loan balance. Such loans are typically placed on nonaccrual status when there is doubt concerning the full repayment of principal and interest or the loan has been delinquent for a period of 90 days or more. These loans may be returned to accrual status when all contractual amounts past due have been brought current, and the borrower's performance under the modified terms of the loan agreement and the ultimate collectability of all contractual amounts due under the modified terms is no longer in doubt. The Company typically measures the ACL on modified loans to borrowers experiencing financial difficulty on an individual basis when the loans are deemed to no longer share risk characteristics that are similar with other loans in the portfolio. The determination of the ACL for these loans is based on a discounted cash flow approach for both those measured collectively and individually, unless the loan is deemed collateral dependent, which requires measurement of the ACL based on the estimated expected fair value of the underlying collateral, less costs to sell. GAAP requires the Company to make certain disclosures related to these loans, including certain types of modifications, as well as how such loans have performed since their modifications.

Provision for Credit 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.

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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 ACL during the twelve months ended December 31, 2023.

Twelve Months Ended December 31, 2023						
	Balance, Beginning of Period	Adoption of CECL	(Credit) Provision Charged to Expense	Losses Charged Off	Recoveries	Balance, End of Period
Allowance for credit losses:						
Commercial and industrial	\$ 1,711	\$ (120)	\$ 7,400	\$ (7,049)	\$ 243	\$ 2,185
Owner-occupied commercial real estate	651	62	112	—	—	825
Investor commercial real estate	1,099	(191)	994	(591)	—	1,311
Construction	2,074	(435)	528	—	—	2,167
Single tenant lease financing	10,519	(346)	(2,044)	—	—	8,129
Public finance	1,753	(135)	(246)	—	—	1,372
Healthcare finance	2,997	1,034	(1,450)	(605)	—	1,976
Small business lending	2,168	334	6,539	(2,586)	77	6,532
Franchise finance	3,988	(313)	3,019	(331)	—	6,363
Residential mortgage	1,559	406	224	(140)	5	2,054
Home equity	69	133	(37)	—	6	171
Other consumer	3,149	2,533	415	(582)	174	5,689
Total	<u>\$ 31,737</u>	<u>\$ 2,962</u>	<u>\$ 15,454</u>	<u>\$ (11,884)</u>	<u>\$ 505</u>	<u>\$ 38,774</u>

Prior to the adoption of ASU 2016-13 on January 1, 2023, the Company calculated the allowance for loan losses using the incurred loss methodology. The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2022 and December 31, 2021.

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Twelve Months Ended December 31, 2022					
	Balance, Beginning of Period	Provision (Credit) Charged to Expense	Losses Charged Off	Recoveries	Balance, End of Period
Allowance for loan losses:					
Commercial and industrial	\$ 1,891	\$ (185)	\$ —	\$ 5	\$ 1,711
Owner-occupied commercial real estate	742	(91)	—	—	651
Investor commercial real estate	328	771	—	—	1,099
Construction	1,612	462	—	—	2,074
Single tenant lease financing	10,385	(1,097)	—	1,231	10,519
Public finance	1,776	(23)	—	—	1,753
Healthcare finance	5,940	(2,943)	—	—	2,997
Small business lending	1,387	1,154	(402)	29	2,168
Franchise finance	1,083	2,905	—	—	3,988
Residential mortgage	643	912	—	4	1,559
Home equity	64	(134)	—	139	69
Other consumer	1,990	3,246	(2,358)	271	3,149
Total	<u>\$ 27,841</u>	<u>\$ 4,977</u>	<u>\$ (2,760)</u>	<u>\$ 1,679</u>	<u>\$ 31,737</u>

Twelve Months Ended December 31, 2021					
	Balance, Beginning of Period	Provision (Credit) Charged to Expense	Losses Charged Off	Recoveries	Balance, End of Period
Allowance for loan losses:					
Commercial and industrial	\$ 1,146	\$ 684	\$ (28)	\$ 89	\$ 1,891
Owner-occupied commercial real estate	1,082	(340)	—	—	742
Investor commercial real estate	155	173	—	—	328
Construction	1,192	420	—	—	1,612
Single tenant lease financing	12,990	(214)	(2,391)	—	10,385
Public finance	1,732	44	—	—	1,776
Healthcare finance	7,485	(1,545)	—	—	5,940
Small business lending	628	901	(222)	80	1,387
Franchise Finance	—	1,083	—	—	1,083
Residential mortgage	519	67	(6)	63	643
Home equity	48	60	(51)	7	64
Other consumer	2,507	(303)	(529)	315	1,990
Total	<u>\$ 29,484</u>	<u>\$ 1,030</u>	<u>\$ (3,227)</u>	<u>\$ 554</u>	<u>\$ 27,841</u>

In addition to the ACL, the Company established a reserve for off-balance sheet commitments, classified in other liabilities, as required by the adoption of the CECL methodology for measuring credit losses. This reserve is maintained at a level management believes to be sufficient to absorb losses arising from unfunded loan commitments. The day one entry for off-balance sheet commitments resulted in a reserve of \$2.5 million. The adequacy of the reserve for unfunded commitments is determined quarterly based on methodology similar to the methodology for determining the ACL. The following table details activity in the provision for credit losses on off-balance sheet commitments for the twelve months ended December 31, 2023.

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<i>(dollars in thousands)</i>	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption	Provision for credit losses	Balance December 31, 2023
Off-balance sheet commitments				
Commercial loans				
Commercial and industrial	\$ —	\$ 110	\$ 123	\$ 233
Owner-occupied commercial real estate	—	—	9	9
Investor commercial real estate	—	9	(3)	6
Construction	—	2,193	696	2,889
Healthcare finance	—	2	(2)	—
Small business lending	—	—	541	541
Total commercial loans	—	2,314	1,364	3,678
Consumer loans				
Residential mortgage	—	127	(116)	11
Home equity	—	52	(7)	45
Other consumer	—	11	—	11
Total consumer loans	—	190	(123)	67
Total allowance for off-balance sheet commitments	\$ —	\$ 2,504	\$ 1,241	\$ 3,745

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2022.

	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
December 31, 2022						
Commercial and industrial	\$ 116,307	\$ 9,801	\$ 126,108	\$ 1,660	\$ 51	\$ 1,711
Owner-occupied commercial real estate	60,266	1,570	61,836	651	—	651
Investor commercial real estate	93,121	—	93,121	1,099	—	1,099
Construction	181,966	—	181,966	2,074	—	2,074
Single tenant lease financing	939,240	—	939,240	10,519	—	10,519
Public finance	621,032	—	621,032	1,753	—	1,753
Healthcare finance	272,461	—	272,461	2,997	—	2,997
Small business lending ¹	113,699	10,051	123,750	1,465	703	2,168
Franchise finance	299,835	—	299,835	3,988	—	3,988
Residential mortgage	380,272	3,676	383,948	1,559	—	1,559
Home equity	24,683	29	24,712	69	—	69
Other consumer	324,581	17	324,598	3,149	—	3,149
Total	\$ 3,427,463	\$ 25,144	\$3,452,607	\$ 30,983	\$ 754	\$ 31,737

¹ Balance is partially guaranteed by the U.S. government.

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

- “Pass” - Higher quality loans that do not fit any of the other categories described below.
- “Special Mention” - Loans that possess some credit deficiency or potential weakness which deserve close attention.
- “Substandard” - Loans that possess a defined weakness or weaknesses that jeopardize the liquidation of the debt. Loans that are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Loans that are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any.
- “Doubtful” - Such loans have been placed on nonaccrual status and may be heavily dependent upon collateral possessing a value that is difficult to determine or based upon some near-term event which lacks clear certainty. These loans have all of the weaknesses of those classified as Substandard; however, based on existing conditions, these weaknesses make full collection of the principal balance highly improbable.
- “Loss” - Loans that are considered uncollectible and of such little value that continuing to carry them as assets is not warranted.

The Company does not risk grade its consumer loans. It classifies them as either performing or nonperforming. Below is a description of those classifications:

- “Performing” - Loans that are accruing and full collection of principal and interest is expected.
- “Nonperforming” - Loans that are 90 days delinquent or for which the full collection of principal and interest may be in doubt.

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The following table presents the credit risk profile of the Company's commercial and consumer loan portfolios by loan class and by year of origination for the years indicated based on rating category and payment activity as of December 31, 2023.

	December 31, 2023								
	Term Loans (amortized cost basis by origination year)						Revolving loans amortized cost basis	Revolving loans converted to term	Total
(in thousands)	2023	2022	2021	2020	2019	Prior			
Commercial and industrial									
Pass	\$ 24,329	\$ 19,382	\$ 15,464	\$ 2,502	\$ 12,365	\$ 8,703	\$ 41,967	\$ —	\$ 124,712
Special Mention	—	4,637	—	—	—	—	—	—	4,637
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total Commercial and industrial	24,329	24,019	15,464	2,502	12,365	8,703	41,967	—	129,349
Gross charge-offs	—	—	6,914	5	130	—	—	—	7,049
Owner-occupied commercial real estate									
Pass	1,492	10,731	7,990	6,591	5,255	12,485	—	—	44,544
Special Mention	—	584	922	8,392	—	1,189	—	—	11,087
Substandard	—	—	—	—	—	1,655	—	—	1,655
Doubtful	—	—	—	—	—	—	—	—	—
Total owner-occupied commercial real estate	1,492	11,315	8,912	14,983	5,255	15,329	—	—	57,286
Investor commercial real estate									
Pass	6,571	35,209	26,841	9,864	47,827	5,765	—	—	132,077
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total investor commercial real estate	6,571	35,209	26,841	9,864	47,827	5,765	—	—	132,077
Gross charge-offs	—	—	—	—	—	591	—	—	591
Construction									
Pass	26,539	153,066	70,175	6,121	—	—	5,849	—	261,750
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total construction	26,539	153,066	70,175	6,121	—	—	5,849	—	261,750
Single tenant lease financing									
Pass	52,360	221,964	89,075	65,863	142,023	346,695	—	—	917,980
Special Mention	—	4,362	6,698	3,032	—	4,544	—	—	18,636
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total single tenant lease financing	52,360	226,326	95,773	68,895	142,023	351,239	—	—	936,616
Public finance									
Pass	3,805	30,583	29,750	719	43,611	411,176	—	—	519,644
Special Mention	—	—	—	—	—	2,120	—	—	2,120
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total public finance	3,805	30,583	29,750	719	43,611	413,296	—	—	521,764

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	December 31, 2020								
	Term Loans (amortized cost basis by origination year)						Revolving loans amortized cost basis	Revolving loans converted to term	
(in thousands)	2023	2022	2021	2020	2019	Prior			Total
Healthcare finance									
Pass	—	—	9,955	124,654	63,486	23,484	—	—	221,579
Special Mention	—	—	—	—	1,214	—	—	—	1,214
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total healthcare finance	—	—	9,955	124,654	64,700	23,484	—	—	222,793
Gross charge-offs	—	—	—	—	605	—	—	—	605
Small business lending ¹									
Pass	119,149	42,077	15,180	13,948	4,582	9,215	5,388	—	209,539
Special Mention	343	496	—	341	265	698	—	—	2,143
Substandard	1,095	1,854	52	1,777	1,155	417	474	—	6,824
Doubtful	—	—	—	—	—	—	—	—	—
Total small business lending	120,587	44,427	15,232	16,066	6,002	10,330	5,862	—	218,506
Gross charge-offs	67	739	416	1,364	—	—	—	—	2,586
Franchise finance									
Pass	256,944	210,617	57,919	—	—	—	—	—	525,480
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	303	—	—	—	—	—	303
Doubtful	—	—	—	—	—	—	—	—	—
Total franchise finance	256,944	210,617	58,222	—	—	—	—	—	525,783
Gross charge-offs	—	331	—	—	—	—	—	—	331
Consumer loans									
Residential mortgage									
Performing	14,942	195,453	91,010	30,092	13,072	48,330	—	—	392,899
Nonperforming	—	738	456	73	—	1,482	—	—	2,749
Total residential mortgage	14,942	196,191	91,466	30,165	13,072	49,812	—	—	395,648
Gross charge-offs	—	53	70	—	17	—	—	—	140
Home equity									
Performing	1,369	1,997	436	467	141	585	16,896	1,778	23,669
Nonperforming	—	—	—	—	—	—	—	—	—
Total home equity	1,369	1,997	436	467	141	585	16,896	1,778	23,669
Other consumer									
Performing	115,736	106,883	41,598	26,527	27,087	58,902	795	—	377,528
Nonperforming	—	53	—	5	15	13	—	—	86
Total other consumer	115,736	106,936	41,598	26,532	27,102	58,915	795	—	377,614
Gross charge-offs	97	115	20	51	56	243	—	—	582
Total Loans	\$ 624,674	\$1,040,686	\$ 463,824	\$ 300,968	\$ 362,098	\$ 937,458	\$ 71,369	\$ 1,778	\$ 3,802,855
Total gross charge-offs	\$ 164	\$ 1,238	\$ 7,420	\$ 1,420	\$ 808	\$ 834	\$ —	\$ —	\$ 11,884

¹ Balance is partially guaranteed by the U.S. government.

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The following tables present the credit risk profile of the Company's commercial and consumer loan portfolios based on rating category and payment activity as of December 31, 2022.

	December 31, 2022			
<i>(in thousands)</i>	Pass	Special Mention	Substandard	Total
Commercial and industrial	\$ 114,934	\$ 1,373	\$ 9,801	\$ 126,108
Owner-occupied commercial real estate	50,721	9,546	1,569	61,836
Investor commercial real estate	93,121	—	—	93,121
Construction	180,768	1,198	—	181,966
Single tenant lease financing	936,207	3,033	—	939,240
Public finance	618,752	2,280	—	621,032
Healthcare finance	271,085	1,376	—	272,461
Small business lending ¹	107,885	5,814	10,051	123,750
Franchise finance	299,241	594	—	299,835
Total commercial loans	\$ 2,672,714	\$ 25,214	\$ 21,421	\$ 2,719,349

¹ Balance in "Substandard" is partially guaranteed by the U.S. government.

	December 31, 2022		
<i>(in thousands)</i>	Performing	Nonperforming	Total
Residential mortgage	\$ 382,900	\$ 1,048	\$ 383,948
Home equity	24,712	—	24,712
Other consumer	324,581	17	324,598
Total	\$ 732,193	\$ 1,065	\$ 733,258

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The following tables present the Company's loan portfolio delinquency analysis as of December 31, 2023 and 2022.

	December 31, 2023					
<i>(in thousands)</i>	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total loans
Commercial and industrial	\$ 40	\$ 21	\$ —	\$ 61	\$ 129,288	\$ 129,349
Owner-occupied commercial real estate	—	—	—	—	57,286	57,286
Investor commercial real estate	—	—	—	—	132,077	132,077
Construction	—	—	—	—	261,750	261,750
Single tenant lease financing	—	—	—	—	936,616	936,616
Public finance	—	—	—	—	521,764	521,764
Healthcare finance	—	—	—	—	222,793	222,793
Small business lending ¹	2,680	57	2,794	5,531	212,975	218,506
Franchise Finance	—	2,923	303	3,226	522,557	525,783
Residential mortgage	70	709	1,663	2,442	393,206	395,648
Home equity	—	—	—	—	23,669	23,669
Other consumer	223	68	53	344	377,270	377,614
Total	\$ 3,013	\$ 3,778	\$ 4,813	\$ 11,604	\$ 3,791,251	\$ 3,802,855

¹ Balance is partially guaranteed by the U.S. government.

	December 31, 2022					
<i>(in thousands)</i>	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total loans
Commercial and industrial	\$ 81	\$ —	\$ 51	\$ 132	\$ 125,976	\$ 126,108
Owner-occupied commercial real estate	—	—	—	—	61,836	61,836
Investor commercial real estate	—	—	—	—	93,121	93,121
Construction	—	1,198	—	1,198	180,768	181,966
Single tenant lease financing	—	—	—	—	939,240	939,240
Public finance	—	—	—	—	621,032	621,032
Healthcare finance	—	—	—	—	272,461	272,461
Small business lending ¹	57	—	3,485	3,542	120,208	123,750
Franchise Finance	313	—	—	313	299,522	299,835
Residential mortgage	—	283	185	468	383,480	383,948
Home equity	—	—	—	—	24,712	24,712
Other consumer	91	10	—	101	324,497	324,598
Total	\$ 542	\$ 1,491	\$ 3,721	\$ 5,754	\$ 3,446,853	\$ 3,452,607

¹ Balance is partially guaranteed by the U.S. government.

Loans are reclassified to non-accruing status when, in management's judgment, the collateral value and financial condition of the borrower do not justify accruing interest. At the time the accrual is discontinued, all unpaid accrued interest is reversed against earnings. Interest income accrued in prior years, if any, is charged to the allowance for credit losses. Payments subsequently received on nonaccrual loans are applied to principal. A loan is returned to accrual status when principal and interest are no longer past due and collectability is probable, typically after a minimum of nine consecutive months of performance.

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The following table summarizes the Company's nonaccrual loans and loans past due 90 days or more and still accruing by loan class for the periods indicated:

	December 31, 2023			December 31, 2022		
	Nonaccrual Loans	Nonaccrual Loans with no Allowance for Credit Losses	Total Loans 90 Days or More Past Due and Accruing	Nonaccrual Loans	Nonaccrual Loans with no Allowance for Loan Losses	Total Loans 90 Days or More Past Due and Accruing
<i>(in thousands)</i>						
Commercial and industrial	\$ —	\$ —	\$ —	\$ 51	\$ —	\$ —
Owner-occupied commercial real estate	—	—	—	1,570	1,570	—
Small business lending ¹	6,824	904	—	4,764	2,766	—
Franchise finance	303	—	—	—	—	—
Residential mortgage	1,911	1,911	838	1,048	1,048	79
Other consumer	86	86	—	17	17	—
Total loans	<u>\$ 9,124</u>	<u>\$ 2,901</u>	<u>\$ 838</u>	<u>\$ 7,450</u>	<u>\$ 5,401</u>	<u>\$ 79</u>

¹ Balance is partially guaranteed by the U.S. government.

There was \$0.3 million and \$0.2 million in interest income recognized on nonaccrual loans for the twelve months ended December 31, 2023 and December 31, 2022, respectively.

Determining fair value for collateral dependent loans requires obtaining a current independent appraisal of the collateral and applying a discount factor, which includes selling costs if applicable, to the value. The fair value of real estate is generally based on appraisals by qualified licensed appraisers. The appraisers typically determine the value of the real estate by utilizing an income or market valuation approach. If an appraisal is not available, the fair value may be determined by using a cash flow analysis. Fair value on other collateral such as business assets is typically ascertained by assessing, either singularly or some combination of, asset appraisals, accounts receivable aging reports, inventory listings and/or customer financial statements. Both appraised values and values based on borrower's financial information are discounted as considered appropriate based on age and quality of the information and current market conditions.

The following table presents the amortized cost basis of collateral dependent loans, which are individually evaluated to determine expected credit losses as of December 31, 2023.

	December 31, 2023				Allowance on Collateral Dependent Loans
	Commercial Real Estate	Residential Real Estate	Other	Total	
<i>(in thousands)</i>					
Commercial and industrial	\$ —	\$ —	\$ —	\$ —	\$ —
Owner-occupied commercial real estate	—	—	1,654	1,654	—
Small business lending ¹	2,875	1,210	2,226	6,311	2,391
Residential mortgage	—	1,911	—	1,911	—
Other consumer loans	—	—	86	86	—
Total loans	<u>\$ 2,875</u>	<u>\$ 3,121</u>	<u>\$ 3,966</u>	<u>\$ 9,962</u>	<u>\$ 2,391</u>

¹ Balance is partially guaranteed by the U.S. government.

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The following tables present the Company's impaired loans as of December 31, 2022.

	December 31, 2022		
	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans without a specific valuation allowance			
Commercial and industrial	\$ 9,750	\$ 9,750	\$ —
Owner-occupied commercial real estate	1,570	1,779	—
Small business lending ¹	8,184	8,705	—
Residential mortgage	3,676	3,835	—
Home equity	29	29	—
Other consumer	17	36	—
Total	23,226	24,134	—
Loans with a specific valuation allowance			
Commercial and industrial	\$ 51	\$ 51	\$ 51
Single tenant lease financing	—	—	—
Healthcare finance	—	—	—
Small business lending ¹	1,867	1,867	703
Total	1,918	1,918	754
Total impaired loans	<u>\$ 25,144</u>	<u>\$ 26,052</u>	<u>\$ 754</u>

¹ Balance is partially guaranteed by the U.S. government.

The following table presents average balances and interest income recognized for impaired loans during the twelve months ended December 31, 2022, and 2021.

	December 31, 2022		December 31, 2021	
	Average Balance	Interest Income	Average Balance	Interest Income
Loans without a specific valuation allowance				
Commercial and industrial	\$ 3,676	\$ 872	\$ 194	\$ 9
Owner-occupied commercial real estate	2,253	—	3,324	—
Single tenant lease financing	—	—	75	5
Healthcare finance	—	—	252	—
Small business lending ¹	2,678	—	1,215	—
Residential mortgage	3,529	25	2,264	67
Home equity	16	—	13	—
Other consumer	8	—	29	—
Total	12,160	897	7,366	81
Loans with a specific valuation allowance				
Commercial and industrial	\$ 411	\$ —	\$ 675	\$ —
Owner-occupied commercial real estate	—	—	355	—
Single tenant lease financing	410	—	3,931	—
Healthcare finance	620	45	841	131
Small business lending ¹	1,662	—	644	—
Other consumer	50	—	—	—
Total	3,153	45	6,446	131
Total impaired loans	<u>\$ 15,313</u>	<u>\$ 942</u>	<u>\$ 13,812</u>	<u>\$ 212</u>

¹ Balance is partially guaranteed by the U.S. government.

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Loan Modifications to Borrowers Experiencing Financial Difficulty

In January 2023, the Company adopted ASU 2022-02, “Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures” (“ASU 2022-02”), which eliminated the accounting guidance for troubled debt restructurings (“TDRs”) while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. This guidance was applied on a prospective basis. Upon adoption of this guidance, the Company no longer establishes a specific reserve for modifications to borrowers experiencing financial difficulty. Instead, these modifications are included in their respective loan pool and a historical loss rate is applied to the current loan balance to arrive at the quantitative baseline portion of the ACL.

Modifications to borrowers experiencing financial difficulty may include interest rate reductions, principal or interest forgiveness, forbearances, term extensions and other actions intended to minimize loss and to avoid foreclosure or repossession of collateral. The Company did not have any loan modifications made to borrowers experiencing financial difficulty during the twelve months ended December 31, 2023.

There were two portfolio residential mortgage loans classified as new TDRs during the twelve months ended December 31, 2022 with a pre-modification and post-modification outstanding recorded investment of \$1 million. The Company did not allocate a specific allowance for loan losses (“ALLL”) for these loans as of December 31, 2022 and the modifications consisted of interest only payments for a period of time. There was one SBA loan classified as a new TDR during the twelve months ended December 31, 2022 with a pre-modification and post-modification outstanding recorded investment of \$0.6 million and the modification consisted of a forbearance agreement. The company allocated a specific ALLL of \$0.3 million for this loan. There were two portfolio residential mortgage loans classified as new TDRs during the twelve months ended December 31, 2021 with a pre-modification and post-modification outstanding recorded investment of \$1.6 million. The Company did not allocate a specific ALLL for these loans as of December 31, 2021. The modifications consisted of interest-only payments for a period of time.

There were no performing TDRs which had payment defaults within the twelve months following modification during the years ended December 31, 2022 and 2021.

Other Real Estate Owned

The Company had \$0.4 million in OREO as of December 31, 2023, which consisted of two residential mortgage properties. The Company did not have any OREO as of December 31, 2022. There was one loan totaling \$0.8 million and one loan totaling \$0.1 million, in the process of foreclosure at December 31, 2023 and December 31, 2022, respectively.

Note 5: Premises and Equipment

The following table summarizes premises and equipment at December 31, 2023 and 2022.

	December 31,	
	2023	2022
Land	\$ 5,598	\$ 5,598
Construction in process	1,119	714
Right of use leased asset	66	206
Building and improvements	60,699	57,505
Furniture and equipment	20,836	19,585
Less: accumulated depreciation	(14,855)	(10,897)
	<u>\$ 73,463</u>	<u>\$ 72,711</u>

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Note 6: Goodwill

As of December 31, 2023 and 2022, the carrying amount of goodwill was \$4.7 million. There have been no changes in the carrying amount of goodwill for the three years ended December 31, 2023, 2022 and 2021. Goodwill is tested for impairment on an annual basis as of August 31, or whenever events or changes in circumstances indicate the carrying amount of goodwill exceeds its implied fair value. The annual test indicated no impairment existed as of August 31, 2023 and no events or changes in circumstances have occurred since the August 31, 2023 annual impairment test that would suggest it was more likely than not goodwill impairment existed.

Note 7: Servicing Asset

Activity for the servicing asset and the related changes in fair value for the twelve months ended December 31, 2023, 2022 and 2021 are shown in the table below.

	Twelve Months Ended		
	December 31, 2023	December 31, 2022	December 31, 2021
Beginning balance	\$ 6,255	\$ 4,702	\$ 3,569
Additions:			
Originated and purchased servicing	5,775	3,192	2,202
Subtractions:			
Paydowns	(1,842)	(1,075)	(820)
Changes in fair value due to changes in valuation inputs or assumptions used in the valuation model	379	(564)	(249)
Loan servicing asset revaluation	(1,463)	(1,639)	(1,069)
Ending balance	<u>\$ 10,567</u>	<u>\$ 6,255</u>	<u>\$ 4,702</u>

Loans serviced for others are not included in the consolidated balance sheets. The unpaid principal balances of these loans serviced for others as of December 31, 2023, 2022 and 2021 are shown in the table below.

	December 31, 2023	December 31, 2022	December 31, 2021
Loan portfolios serviced for:			
SBA guaranteed loans	\$ 531,927	\$ 318,194	\$ 230,514
Total	<u>\$ 531,927</u>	<u>\$ 318,194</u>	<u>\$ 230,514</u>

Loan servicing revenue totaled \$3.8 million, \$2.6 million and \$1.9 million during the twelve months ended December 31, 2023, 2022 and 2021, respectively. Loan servicing asset revaluation, which represents paydowns and the change in fair value of the servicing asset, resulted in a \$1.5 million, \$1.6 million and \$1.1 million downward valuation for twelve months ended December 31, 2023, 2022 and 2021, respectively.

The fair value of servicing rights is highly sensitive to changes in underlying assumptions. Though fluctuations in prepayment speeds and changes in secondary market premiums generally have the most substantial impact on the fair value of servicing rights, other influencing factors include changing economic conditions, changes to the discount rate assumption and the weighted average life of the servicing portfolio. Measurement of fair value is limited to the conditions existing and the assumptions used as of a particular point in time; however, those assumptions may change over time. Refer to Note 16 - Fair Value of Financial Instruments for further details.

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Note 8: Deposits

The following table presents the composition of the Company's deposit base as of December 31, 2023 and 2022.

	December 31,	
	2023	2022
Noninterest-bearing demand deposit accounts	\$ 123,464	\$ 175,315
Interest-bearing demand deposit accounts	402,976	335,611
Savings accounts	21,364	44,819
Money market accounts	1,248,319	1,418,599
Banking-as-a-Service ("BaaS") - brokered deposits	74,401	13,607
Certificates of deposits	1,605,156	874,490
Brokered deposits	591,293	578,804
Total deposits	<u>\$ 4,066,973</u>	<u>\$ 3,441,245</u>
Time deposits greater than \$250	<u>\$ 703,835</u>	<u>\$ 484,700</u>

The following table presents time deposit maturities by year as of December 31, 2023.

	Certificates of Deposits	Brokered Certificates of Deposits
2024	\$ 1,245,393	\$ 87,030
2025	83,378	92,499
2026	63,319	35,430
2027	94,844	40,000
2028	118,222	6,500
Thereafter	—	6,400
	<u>\$ 1,605,156</u>	<u>\$ 267,859</u>

Note 9: FHLB Advances

The Company had outstanding FHLB advances of \$614.9 million as of December 31, 2023 and 2022. As of December 31, 2023, the stated interest rates on the Company's outstanding FHLB advances ranged from 1.06% to 5.53%, with a weighted average interest rate of 3.04%. All advances are collateralized by residential mortgage loans and commercial real estate loans pledged and held by the Company and investment securities pledged by the Company and held in safekeeping with the FHLB. Residential mortgage loans pledged were approximately \$330.3 million and \$258.0 million as of December 31, 2023 and 2022, respectively, and commercial real estate loans pledged were approximately \$932.4 million and \$895.3 million as of December 31, 2023 and 2022, respectively. The fair value of investment securities pledged to the FHLB was approximately \$662.1 million and \$448.4 million as of December 31, 2023 and 2022, respectively. Based on this collateral and the Company's holding of FHLB stock, the Company is eligible to borrow up to an additional \$663.2 million at year-end 2023. As of December 31, 2023, the Company had \$125.0 million of putable advances with the FHLB.

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

	Amount
2024	\$ 255,003
2025	90,000
2026	10,000
2027	100,000
2028	35,000
Thereafter	124,931
	<u>\$ 614,934</u>

Note 10: Subordinated Debt

In June 2019, the Company issued \$37.0 million aggregate principal amount of 6.0% Fixed-to-Floating Rate Subordinated Notes due 2029 (the "2029 Notes") in a public offering. The 2029 Notes initially bear a fixed interest rate of 6.0% per year to, but excluding, June 30, 2024, and thereafter a floating rate equal to the then-current benchmark rate (initially three-month LIBOR rate) plus 4.11%. All interest on the 2029 Notes is payable quarterly. The 2029 Notes are scheduled to mature on June 30, 2029. The 2029 Notes are unsecured subordinated obligations of the Company and may be repaid, without penalty, on any interest payment date on or after June 30, 2024. The 2029 Notes are intended to qualify as Tier 2 capital under regulatory guidelines.

In October 2020, the Company entered into a term loan in the principal amount of \$10.0 million, evidenced by a term note due 2030 (the "2030 Note"). The 2030 Note initially bears a fixed interest rate of 6.0% per year to, but excluding, November 1, 2025 and thereafter at a floating rate equal to the then-current benchmark rate (initially three-month Term SOFR plus 5.795%). The 2030 Note is scheduled to mature on November 1, 2030. The 2030 Note is an unsecured subordinated obligation of the Company and may be repaid, without penalty, on any interest payment date on or after November 1, 2025. The 2030 Note is intended to qualify as Tier 2 capital under regulatory guidelines. The Company used the net proceeds from the issuance of the 2030 Note to redeem a subordinated term note that had been entered into in October 2015.

In August 2021, the Company issued \$60.0 million aggregate principal amount of 3.75% Fixed-to-Floating Rate Subordinated Notes due 2031 (the "2031 Notes") in a private placement. The 2031 Notes initially bear a fixed interest rate of 3.75% per year to, but excluding, September 1, 2026, and thereafter a floating rate equal to the then-current benchmark rate (initially three-month Term SOFR plus 3.11%). The 2031 Notes are scheduled to mature on September 1, 2031. The 2031 Notes are unsecured subordinated obligations of the Company and may be repaid, without penalty, on any interest payment date on or after September 1, 2026. The 2031 Notes are intended to qualify as Tier 2 capital under regulatory guidelines. The Company used a portion of the net proceeds from the issuance of the 2031 Notes to redeem subordinated notes issued by the Company in 2016. Pursuant to the terms of a Registration Rights Agreement between the Company and the initial purchasers of the 2031 Notes, the Company offered to exchange the 2031 Notes for subordinated notes that are registered under the Securities Act of 1933, as amended, and have substantially the same terms as the 2031 Notes. On December 30, 2021, we completed an exchange of \$59.3 million principal amount of the unregistered 2031 Notes for registered 2031 Notes in satisfaction of our obligations under the registration rights agreement. Holders of \$0.7 million of unregistered 2031 Notes did not participate in the exchange.

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The following table presents the principal balance and unamortized discount and debt issuance costs for the 2029 Notes, the 2030 Note and the 2031 Notes as of December 31, 2023 and 2022.

	December 31, 2023		December 31, 2022	
	Principal	Unamortized Discount and Debt Issuance Costs	Principal	Unamortized Discount and Debt Issuance Costs
2029 Notes	\$ 37,000	\$ (862)	\$ 37,000	\$ (1,020)
2030 Note	10,000	(160)	10,000	(184)
2031 Notes	60,000	(1,140)	60,000	(1,264)
Total	<u>\$ 107,000</u>	<u>\$ (2,162)</u>	<u>\$ 107,000</u>	<u>\$ (2,468)</u>

Note 11: Benefit Plans

401(k) Plan

The Company has a 401(k) plan established for substantially all full-time and part-time employees, as defined in the plan. Employee contributions are limited to the maximum established by the Internal Revenue Service on an annual basis. The Company has elected to match contributions equal to 100% up to the first 1% of employee deferrals and then 50% on deferrals of 2% to 6% equating to a maximum match of 3.5% of an individual's total eligible salary, as defined in the plan. The company match vests immediately. Discretionary employer-matching contributions begin vesting immediately at a rate of 50% per year of employment and are fully vested after the completion of two years of employment. Contributions totaled approximately \$0.9 million in the twelve months ended December 31, 2023, 2022 and 2021, respectively.

Employment Agreements

The Company is party to certain employment agreements with each of its Chief Executive Officer, President and Chief Operating Officer and Executive Vice President and Chief Financial Officer. The employment agreements each provide for annual base salaries and annual bonuses, if any, as determined from time to time by the Compensation Committee of our Board of Directors. The annual bonuses are to be determined with reference to the achievement of annual performance objectives established by the Compensation Committee. The agreements also provide that each of the Chief Executive Officer, President and Chief Operating Officer and Executive Vice President and Chief Financial Officer, may be awarded additional compensation, benefits, or consideration as the Compensation Committee may determine.

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

2022 Equity Incentive Plan

The First Internet Bancorp 2022 Equity Incentive Plan (the "2022 Plan") was approved by our Board of Directors and ratified by our shareholders on May 16, 2022. The plan permits awards of incentive and non-statutory stock options, stock appreciation rights, restricted stock awards, stock unit awards, performance awards and other stock-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 2022 Plan. The 2022 Plan initially authorized the issuance of 400,000 new shares of the Company's common stock plus all shares of common stock that remained available for future grants under the First Internet Bancorp 2013 Equity Incentive Plan (the "2013 Plan").

Award Activity Under 2022 Plan

The Company recorded \$0.8 million and \$0.1 million of share-based compensation expense for the years ended December 31, 2023, and 2022, respectively, related to stock-based awards under the 2022 Plan.

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The following table summarizes the stock-based award activity under the 2022 Plan for the year ended December 31, 2023.

	Restricted Stock Units	Weighted- Average Grant Date Fair Value Per Share	Restricted Stock Awards	Weighted- Average Grant Date Fair Value Per Share	Deferred Stock Units	Weighted- Average Grant Date Fair Value Per Unit
Unvested at January 1, 2023	—	\$ —	3,558	\$ 36.84	—	\$ —
Granted	147,576	24.61	30,030	11.18	—	—
Forfeited	—	—	—	—	—	—
Vested	—	—	(3,558)	36.84	—	—
Unvested at December 31, 2023	<u>147,576</u>	<u>\$ 24.61</u>	<u>30,030</u>	<u>\$ 11.18</u>	<u>—</u>	<u>\$ —</u>

At December 31, 2023, the total unrecognized compensation cost related to unvested stock-based awards was \$1.3 million with a weighted-average expense recognition period of 1.9 years.

2013 Equity Incentive Plan

The 2013 Plan authorized the issuance of 750,000 shares of the Company's common stock in the form of stock-based awards to employees, directors and other eligible persons. Although outstanding stock-based awards under the 2013 Plan remain in place according to their terms, our authority to grant new awards under the 2013 Plan terminated upon shareholder approval of the 2022 Plan.

Award Activity Under 2013 Plan

The Company recorded \$0.4 million, \$2.0 million and \$2.4 million of share-based compensation expense for the years ended December 31, 2023, 2022 and 2021, respectively, related to stock-based awards under the 2013 Plan.

The following table summarizes the stock-based award activity under the 2013 Plan for the year ended December 31, 2023:

	Restricted Stock Units	Weighted- Average Grant Date Fair Value Per Share	Restricted Stock Awards	Weighted- Average Grant Date Fair Value Per Share	Deferred Stock Units	Weighted- Average Grant Date Fair Value Per Unit
Unvested at January 1, 2023	101,734	\$ 35.93	—	\$ —	—	\$ —
Granted	—	—	—	—	—	—
Forfeited	(278)	27.56	—	—	—	—
Vested	(47,471)	31.56	—	—	—	—
Unvested at December 31, 2023	<u>53,985</u>	<u>\$ 39.86</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>\$ —</u>

As of December 31, 2023, the total unrecognized compensation cost related to unvested awards was \$0.6 million with a weighted-average expense recognition period of 1.1 years.

Directors Deferred Stock Plan

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

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The following table summarizes the status of deferred stock rights related to the Directors Deferred Stock Plan for the year ended December 31, 2023.

	Deferred Rights
Outstanding, beginning of year	40,414
Granted	402
Released	(12,278)
Outstanding, end of year	28,538

All deferred stock rights granted during 2023 were additional rights issued in lieu of cash dividends payable on outstanding deferred stock rights.

Note 12: Income Taxes

The provision for income taxes consists of the following:

	December 31,		
	2023	2022	2021
Current	\$ 876	\$ (73)	\$ 6,024
Deferred	(4,353)	4,632	2,434
Total	\$ (3,477)	\$ 4,559	\$ 8,458

Income tax provision is reconciled to the statutory 21 % rate applied to pre-tax income.

	December 31,		
	2023	2022	2021
Statutory rate times pre-tax income	\$ 1,037	\$ 8,421	\$ 11,880
(Subtract) add the tax effect of:			
Income from tax-exempt securities and loans	(3,951)	(4,190)	(4,217)
State income tax, net of federal tax effect	(30)	592	865
Bank-owned life insurance	(215)	(201)	(199)
Tax credits	(168)	(143)	(175)
Other differences	(150)	80	304
Total income taxes	\$ (3,477)	\$ 4,559	\$ 8,458

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The net deferred tax asset at December 31, 2023 and 2022 consists of the following:

	December 31,	
	2023	2022
Deferred tax assets (liabilities)		
Allowance for loan losses	\$ 9,847	\$ 8,569
Net unrealized losses on available-for-sale securities and hedged items	8,776	10,047
Fair value adjustments	(12,101)	(12,097)
Depreciation	(4,306)	(2,612)
Deferred compensation and accrued payroll	1,228	1,574
Loan origination costs	(1,379)	(1,816)
Prepaid assets	(806)	(813)
Net operating loss	13,309	8,928
Tax credits	711	—
Other	335	312
Total deferred tax assets, net	<u>\$ 15,614</u>	<u>\$ 12,092</u>

As of December 31, 2023 and 2022 the Company had federal net operating loss (“NOL”) carryforwards of approximately \$57.2 million and \$40.5 million, respectively, and state NOL carryforwards of \$8.5 million and \$9.1 million, respectively. For federal income tax purposes, the NOL has no expiration period; however, for state income tax purposes, the NOL may have varying expiration periods. The Company expects to generate sufficient taxable income in the future to utilize the loss generated.

Note 13: Related Party Transactions

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

Related party loans and extensions of credit at December 31, 2023 and 2022 totaled \$45.9 million and \$21.9 million, respectively.

The following table presents the change in related party loans as of December 31, 2023 and 2022.

	Twelve Months Ended	
	December 31, 2023	December 31, 2022
Balance at the beginning of period	\$ 21,860	\$ 11,364
New Term Loans	19,139	21,810
Additions	4,956	—
Repayment of term loans	(12)	(11,324)
Changes in balances of revolving lines of credit	(17)	10
Balance at end of period	<u>\$ 45,926</u>	<u>\$ 21,860</u>

Deposits from related parties held by the Company at December 31, 2023 and 2022 totaled \$28.3 million and \$33.7 million, respectively.

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Note 14: Regulatory Capital Requirements

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

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

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

The capital conservation buffer is designed to absorb losses during periods of economic stress. Failure to maintain the minimum Common Equity Tier 1 capital ratio plus the capital conservation buffer will result in potential restrictions on a banking institution's ability to pay dividends, repurchase stock and/or pay discretionary compensation to its employees.

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The following tables present actual and required capital ratios as of December 31, 2023 and 2022 for the Company and the Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2023 and 2022 based on the Basel III Capital Rules. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

As permitted by the federal banking regulatory agencies, the Company has elected the option to delay the impact of the day one adoption of ASC 326. The transition adjustments of \$4.5 million will be phased into the regulatory capital calculations over a three-year period, with 25% of the adjustment recognized in 2023, 50% of the adjustment recognized in 2024, 75% of the adjustment recognized in 2025 and 100% of the adjustment recognized in 2026.

	Actual		Minimum Capital Required - Basel III		Minimum Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
As of December 31, 2023:						
Common equity tier 1 capital to risk-weighted assets						
Consolidated	\$ 381,001	9.60 %	\$ 277,914	7.00 %	N/A	N/A
Bank	464,390	11.73 %	277,063	7.00 %	\$ 257,273	6.50 %
Tier 1 capital to risk-weighted assets						
Consolidated	381,001	9.60 %	337,467	8.50 %	N/A	N/A
Bank	464,390	11.73 %	336,434	8.50 %	316,644	8.00 %
Total capital to risk-weighted assets						
Consolidated	525,283	13.23 %	416,870	10.50 %	N/A	N/A
Bank	503,834	12.73 %	415,595	10.50 %	395,804	10.00 %
Leverage ratio						
Consolidated	381,001	7.33 %	207,929	4.00 %	N/A	N/A
Bank	464,390	8.95 %	207,479	4.00 %	259,349	5.00 %
	Actual		Minimum Capital Required - Basel III		Minimum Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
As of December 31, 2022:						
Common equity tier 1 capital to risk-weighted assets						
Consolidated	\$ 390,150	10.93 %	\$ 249,795	7.00 %	N/A	N/A
Bank	466,257	13.10 %	249,191	7.00 %	\$ 231,392	6.50 %
Tier 1 capital to risk-weighted assets						
Consolidated	390,150	10.93 %	303,323	8.50 %	N/A	N/A
Bank	466,257	13.10 %	302,590	8.50 %	284,790	8.00 %
Total capital to risk-weighted assets						
Consolidated	526,419	14.75 %	374,693	10.50 %	N/A	N/A
Bank	497,994	13.99 %	373,787	10.50 %	355,988	10.00 %
Leverage ratio						
Consolidated	390,150	9.06 %	172,330	4.00 %	N/A	N/A
Bank	466,257	10.84 %	172,093	4.00 %	215,116	5.00 %

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Note 15: Commitments and Credit Risk

In the normal course of business, the Company makes various commitments to extend credit which are not reflected in the accompanying consolidated financial statements. At December 31, 2023 and 2022, the Company had outstanding loan commitments totaling approximately \$755.4 million and \$485.4 million, respectively.

Capital Commitments

Capital expenditures were made in connection with the construction of the building where our corporate headquarters is located, along with an attached parking garage. The Company entered into construction-related contracts. As of December 31, 2023, the project was completed at a total cost of \$67.2 million. There are no remaining capital commitments left at December 31, 2023.

Note 16: Fair Value of Financial Instruments

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

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

Level 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 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. 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. The Company did not own any securities classified within Level 1 of the hierarchy as of December 31, 2023 or December 31, 2022.

Level 2 securities include U.S. Government-sponsored agencies, municipal securities, mortgage and asset-backed securities and corporate securities. Matrix pricing is a mathematical technique widely used in the banking industry to value 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 December 31, 2023 or 2022.

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).

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Servicing Asset

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

Interest Rate Swap Agreements

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

Back-to-Back Swap Agreements

The Company offers interest rate swaps to certain loan customers to allow them to hedge the risk of rising interest rates on their variable rate loans. The Company originates a variable rate loan and enters into a variable-to-fixed interest rate contract with the customer. The Company also enters into an offsetting interest rate swap with a correspondent bank. These back-to-back swap agreements are intended to offset each other and allow the Company to originate a variable rate loan, while providing a contract for fixed interest payments for the customer. The net cash flow for the Company is equal to the interest income received from a variable rate loan originated with the customer. The fair value of these derivatives is based on a discounted cash flow approach. The fair value assets and liabilities of centrally cleared interest rate swaps are net of variation margin settled-to-market (Level 2).

Forward Contracts

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

Interest Rate Lock Commitments

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

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The following tables present the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2023 and 2022.

		December 31, 2023		
		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	\$ 95,177	\$ —	\$ 95,177	\$ —
Municipal securities	68,446	—	68,446	—
Agency mortgage-backed securities - residential	206,649	—	206,649	—
Agency mortgage-backed securities - commercial	38,885	—	38,885	—
Private label mortgage-backed securities - residential	20,779	—	20,779	—
Asset-backed securities	8,081	—	8,081	—
Corporate securities	36,838	—	36,838	—
Total available-for-sale securities	\$ 474,855	\$ —	\$ 474,855	\$ —
Servicing asset	10,567	—	—	10,567
Interest rate swaps assets	5,139	—	5,139	—
Interest rate swap agreements - assets (back-to-back)	677	—	677	—
Interest rate swap agreements - liabilities (back-to-back)	(677)	—	(677)	—

		December 31, 2022		
		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	\$ 33,809	\$ —	\$ 33,809	\$ —
Municipal securities	67,276	—	67,276	—
Agency mortgage-backed securities - residential	215,092	—	215,092	—
Agency mortgage-backed securities - commercial	15,840	—	15,840	—
Private label mortgage-backed securities - residential	10,455	—	10,455	—
Asset-backed securities	4,960	—	4,960	—
Corporate securities	42,952	—	42,952	—
Total available-for-sale securities	\$ 390,384	\$ —	\$ 390,384	\$ —
Servicing asset	6,255	—	—	6,255
Interest rate swaps assets	8,645	—	8,645	—
Loans held-for-sale (mandatory pricing agreements)	9,110	—	9,110	—
Forward contracts	97	97	—	—
IRLCs	133	—	—	133

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

	<u>Servicing Asset</u>	<u>Interest Rate Lock Commitments</u>
Balance as of January 1, 2021	\$ 3,569	\$ 3,361
Total realized gains		
Additions	2,202	—
Paydowns	(820)	
Change in fair value	(249)	(2,643)
Balance, December 31, 2021	4,702	718
Total realized gains		
Additions	3,192	—
Paydowns	(1,135)	—
Change in fair value	(504)	(585)
Balance, December 31, 2022	6,255	133
Total realized gains		
Additions	5,775	—
Paydowns	(1,842)	—
Change in fair value	379	(133)
Balance, December 31, 2023	<u>\$ 10,567</u>	<u>\$ —</u>

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

Collateral Dependent Loans

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

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

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

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying condensed consolidated balance sheets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurement falls at December 31, 2023 and December 31, 2022.

	<u>December 31, 2023</u>			
	<u>Fair Value Measurements Using</u>			
	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Collateral dependent loans	2,799	—	—	2,799

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	December 31, 2022			
	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	1,164	—	—	1,164

Significant (Level 3) Inputs

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

<i>(dollars in thousands)</i>	Fair Value at December 31, 2023	Valuation Technique	Significant Unobservable Inputs	Range	Weighted-Average Range
Collateral dependent loans	\$ 2,799	Fair value of collateral	Discount for type of property and current market conditions	0% - 90%	28%
			Prepayment speeds	0% - 25%	11.3%
Servicing asset	10,567	Discounted cash flow	Discount rate	15%	15%

<i>(dollars in thousands)</i>	Fair Value at December 31, 2022	Valuation Technique	Unobservable Inputs	Range	Weighted - Average Range
Impaired loans	\$ 1,164	Fair value of collateral	Discount for type of property and current market conditions	0% - 25%	20%
IRLCs	133	Discounted cash flow	Loan closing rates	31% - 100%	89%
			Prepayment speeds	0% - 25%	14.6%
Servicing asset	6,255	Discounted cash flow	Discount rate	14%	14%

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

Cash and Cash Equivalents

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

Securities Held-to-Maturity

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. 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. The Company did not own any securities classified within Level 1 of the hierarchy as of December 31, 2023 or December 31, 2022.

Level 2 securities include agency mortgage-backed securities - residential, municipal securities and corporate securities. Matrix pricing is a mathematical technique widely used in the banking industry to value 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

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the anticipated future cash flows updated to incorporate loss severities. Rating agency and industry research reports as well as default and deferral activity are reviewed and incorporated into the calculation. The Company did not own any securities classified within Level 3 of the hierarchy as of December 31, 2023 or December 31, 2022.

Loans

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

Accrued Interest Receivable

The fair value of these financial instruments approximates carrying value.

Federal Home Loan Bank of Indianapolis Stock

The fair value of this financial instrument approximates carrying value.

Deposits

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

Advances from Federal Home Loan Bank

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

Subordinated Debt

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

Accrued Interest Payable

The fair value of these financial instruments approximates carrying value.

Commitments

The fair value of commitments to extend credit are based on fees currently charged to enter into similar agreements with similar maturities and interest rates. The Company determined that the fair value of commitments was zero based on the contractual value of outstanding commitments at December 31, 2023 and 2022.

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The following tables provide the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2023 and 2022:

December 31, 2023					
Fair Value Measurements Using					
	Carrying Amount	Fair Value	Quoted Prices In Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 405,898	\$ 405,898	\$ 405,898	\$ —	\$ —
Securities held-to-maturity	227,153	207,572	—	207,572	—
Loans held-for-sale (best efforts pricing agreements)	22,052	22,052	—	22,052	—
Net loans	3,801,446	3,611,909	—	—	3,611,909
Accrued interest receivable	26,746	26,746	26,746	—	—
Federal Home Loan Bank of Indianapolis stock	28,350	28,350	—	28,350	—
Deposits	4,066,973	4,059,447	1,796,123	—	2,263,324
Advances from Federal Home Loan Bank	614,934	605,366	—	605,366	—
Subordinated debt	104,838	102,632	32,560	70,072	—
Accrued interest payable	3,848	3,848	3,848	—	—

December 31, 2022					
Fair Value Measurements Using					
	Carrying Amount	Fair Value	Quoted Prices In Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 256,552	\$ 256,552	\$ 256,552	\$ —	\$ —
Securities held-to-maturity	189,168	168,483	—	168,483	—
Loans held-for-sale (best efforts pricing agreements)	12,401	12,401	—	12,401	—
Net loans	3,467,664	3,225,845	—	—	3,225,845
Accrued interest receivable	21,069	21,069	21,069	—	—
Federal Home Loan Bank of Indianapolis stock	28,350	28,350	—	28,350	—
Deposits	3,441,245	3,415,390	1,974,344	—	1,441,046
Advances from Federal Home Loan Bank	614,928	596,455	—	596,455	—
Subordinated debt	104,532	102,669	32,560	70,109	—
Accrued interest payable	2,913	2,913	2,913	—	—

Note 17: Mortgage Banking Activities

The Bank's residential real estate lending business originated mortgage loans for customers and typically sold a majority of the originated loans into the secondary market. For most of the mortgages sold in the secondary market, the Bank hedged its mortgage banking pipeline by entering into forward contracts for the future delivery of mortgage loans to third party investors and entering into IRLCs with potential borrowers to fund specific mortgage loans that would be sold into the secondary market. To facilitate the hedging of the loans, the Bank elected the fair value option for loans originated and intended for sale in the secondary market under mandatory pricing agreements. Changes in the fair value of loans held-for-sale, IRLCs and forward contracts are recorded in the mortgage banking activities line item within noninterest income. Refer to Note 18 for further information on derivative financial instruments.

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During the years ended December 31, 2023, 2022, and 2021, the Company originated mortgage loans held-for-sale of \$36.3 million, \$388.0 million, and \$721.3 million, respectively, and received \$46.5 million, \$411.5 million, and \$714.9 million from the sale of mortgage loans, respectively, into the secondary market. During the first quarter 2023, the Company made the decision to exit the residential mortgage business.

The following table provides the components of income from mortgage banking activities for the years ended December 31, 2023, 2022, and 2021.

	Year Ended December 31,		
	2023	2022	2021
Gain on loans sold	\$ 471	\$ 6,101	\$ 17,803
Loss resulting from the change in fair value of loans held-for-sale	(143)	(184)	(718)
(Loss) gain resulting from the change in fair value of derivatives	(252)	(453)	(2,035)
Net revenue from mortgage banking activities	<u>\$ 76</u>	<u>\$ 5,464</u>	<u>\$ 15,050</u>

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Note 18: Derivative Financial Instruments

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

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

The Company offers interest rate swaps to certain loan customers to allow them to hedge the risk of rising interest rates on their variable rate loans. The Company originates a variable rate loan and enters into a variable-to-fixed interest rate contract with the customer. The Company also enters into an offsetting interest rate swap with a correspondent bank. These back-to-back swap agreements are intended to offset each other and allow the Company to originate a variable rate loan, while providing a contract for fixed interest payments for the customer. The net cash flow for the Company is equal to the interest income received from a variable rate loan originated with the customer. The fair value of these derivatives is based on a discounted cash flow approach. The fair value assets and liabilities of centrally cleared interest rate swaps are net of variation margin settled-to-market.

The IRLCs and forward contracts are not designated as accounting hedges and are recorded at fair value with changes in fair value reflected in noninterest income on the condensed consolidated statements of income. The fair value of derivative instruments with a positive fair value are reported in accrued income and other assets in the condensed consolidated balance sheets, while derivative instruments with a negative fair value are reported in accrued expenses and other liabilities in the condensed consolidated balance sheets.

The following table presents amounts that were recorded in the consolidated balance sheets related to cumulative basis adjustments for interest rate swap derivatives designated as fair value accounting hedges as of December 31, 2023 and 2022.

Line item in the consolidated balance sheet in which the hedged item is included	Carrying amount of the hedged assets		Cumulative amount of fair value hedging adjustment included in the carrying amount of the hedged assets	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Securities available-for-sale ¹	\$ 69,504	\$ 68,963	\$ (1,143)	\$ (2,088)

¹ These amounts include the amortized cost basis of closed portfolios used to designate hedging relationships in which the hedged item is the last layer expected to be remaining at the end of the hedging relationship. The amounts of the designated hedged items were \$50.0 million at December 31, 2023 and 2022.

The following tables present a summary of interest rate swap derivatives designated as fair value accounting hedges of fixed-rate receivables used in the Company's asset/liability management activities at December 31, 2023 and December 31, 2022, identified by the underlying interest rate-sensitive instruments.

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December 31, 2023

Instruments Associated With	Notional Value	Weighted Average Remaining Maturity (years)	Fair Value	Weighted-Average Rate	
				Receive	Pay
Securities available-for-sale	\$ 50,000	0.8	\$ 1,153	3 month SOFR	2.33%
Total swap portfolio at December 31, 2023	\$ 50,000	0.8	\$ 1,153	3 month SOFR	2.33%

December 31, 2022

Instruments Associated With	Notional Value	Weighted Average Remaining Maturity (years)	Fair Value	Weighted-Average Rate	
				Receive	Pay
Securities available-for-sale	\$ 50,000	1.8	\$ 2,093	3 month LIBOR	2.33%
Total swap portfolio at December 31, 2022	\$ 50,000	1.8	\$ 2,093	3 month LIBOR	2.33%

In March 2021, the Company terminated the last layer of interest rate swaps associated with available-for-sale agency mortgage-backed securities - residential, which resulted in swap termination payments to counterparties totaling \$1.9 million. The corresponding fair value hedging adjustment was allocated pro-rata to the underlying hedged securities and is being amortized over the remaining lives of the designated securities. During the year ended December 31, 2023, amortization expense totaling \$0.4 million was recognized as a reduction to interest income on securities.

In June 2020, the Company terminated all fair value hedging relationships associated with loans, which resulted in swap termination payments to counterparties totaling \$46.1 million. The corresponding loan fair value hedging adjustment as of the date of termination is being amortized over the remaining lives of the designated loans, which have a weighted average term to maturity of 10.4 years as of December 31, 2023. During the years ended December 31, 2023 and 2022, amortization expense totaling \$4.7 million and \$4.9 million, respectively, related to these previously terminated fair value hedges was recognized as a reduction to interest income on loans.

The following tables present a summary of interest rate swap derivatives designated as cash flow accounting hedges of variable-rate liabilities used in the Company's asset/liability management activities at December 31, 2023 and December 31, 2022.

December 31, 2023

Cash Flow Hedges	Notional Value	Weighted Average Remaining Maturity (years)	Fair Value	Weighted-Average Rate	
				Receive	Pay
Interest rate swaps	\$ 110,000	3.1	\$ 3,596	3-month SOFR	2.88%
Interest rate swaps	40,000	0.4	390	Fed Funds Effective	2.78%

December 31, 2022

Cash Flow Hedges	Notional Value	Weighted Average Remaining Maturity (years)	Fair Value	Weighted-Average Rate	
				Receive	Pay
Interest rate swaps	\$ 110,000	4.1	\$ 4,787	3 month LIBOR	2.88%
Interest rate swaps	60,000	0.6	735	1 month LIBOR	2.88%
Interest rate swaps	40,000	1.4	1,030	Fed Funds Effective	2.78%

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These derivative financial instruments were entered into for the purpose of managing the interest rate risk of certain assets and liabilities. The Company received \$5.2 million and \$7.7 million of cash collateral from counterparties as security for their obligations related to these swap transactions at December 31, 2023 and 2022, respectively. The Company had no pledged cash collateral as of December 31, 2023 and December 31, 2022 to counterparties on interest rate swap agreements as security for its obligations related to these agreements. Collateral posted and received is dependent on the market valuation of the underlying hedges.

The following table presents the notional amount and fair value of interest rate swaps, IRLCs and forward contracts utilized by the Company at December 31, 2023 and 2022.

	December 31, 2023		December 31, 2022	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Asset Derivatives				
<u>Derivatives designated as hedging instruments</u>				
Interest rate swaps associated with securities available-for-sale	\$ 50,000	\$ 1,153	\$ 50,000	\$ 2,093
Interest rate swaps associated with liabilities	150,000	3,986	210,000	6,552
<u>Derivatives not designated as hedging instruments</u>				
Back-to-back swaps	1,778	\$ 677	—	—
IRLCs	—	—	14,862	133
Forward contracts	—	—	17,000	97
Total contracts	<u>\$ 201,778</u>	<u>\$ 5,816</u>	<u>\$ 291,862</u>	<u>\$ 8,875</u>
Liability Derivatives				
<u>Derivatives not designated as hedging instruments</u>				
Back-to-back swaps	1,778	(677)	—	—
Total contracts	<u>\$ 1,778</u>	<u>\$ (677)</u>	<u>\$ —</u>	<u>\$ —</u>

The fair values of interest rate swaps were estimated using a discounted cash flow method that incorporates current market interest rates as of the balance sheet date. Fair values of IRLCs and forward contracts were estimated using changes in mortgage interest rates and other factors from the date the Company entered into the IRLC and the balance sheet date. Refer to “Note 16 - Fair Value of Financial Instruments” for additional information.

Back-to-back swaps consist of two interest-rate swaps (a customer swap and an offsetting counterparty swap). As a result of this offsetting relationship, no net gains or losses are recognized in income.

The following table presents the effects of the Company's cash flow hedge relationships on the consolidated statements of comprehensive income during the twelve months ended December 31, 2023, 2022, and 2021.

	Amount of (Loss) gain recognized in Other Comprehensive Income in the Twelve Months Ended		
	December 31, 2023	December 31, 2022	December 31, 2021
Interest rate swap agreements	\$ (2,566)	\$ 19,091	\$ 11,138

The following table summarizes the periodic changes in the fair value of derivatives not designated as hedging instruments on the condensed consolidated statements of income for the twelve months ended December 31, 2023, 2022, and 2021.

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	Amount of (Loss) / Gain Recognized in the Twelve Months Ended		
	December 31, 2023	December 31, 2022	December 31, 2021
Asset Derivatives			
<u>Derivatives not designated as hedging instruments</u>			
Forward contracts	\$ —	\$ 127	\$ 610
Liability Derivatives			
<u>Derivatives not designated as hedging instruments</u>			
IRLCs	\$ (133)	\$ (585)	\$ (2,643)
Forward contracts	(119)	—	—

The following table presents the effects of the Company's interest rate swap agreements on the consolidated statements of income during the twelve months ended December 31, 2023, 2022, and 2021.

Line item in the consolidated statements of income	December 31, 2023	December 31, 2022	December 31, 2021
<u>Interest income</u>			
Loans	\$ —	\$ —	\$ —
Securities - taxable	—	—	(253)
Securities - non-taxable	1,471	(244)	(1,099)
Total interest income	1,471	(244)	(1,352)
<u>Interest expense</u>			
Deposits	(1,671)	1,125	2,775
Other borrowed funds	(2,622)	1,110	3,028
Total interest expense	(4,293)	2,235	5,803
Net interest income	\$ 5,764	\$ (2,479)	\$ (7,155)

Note 19: Shareholders' Equity

On October 20, 2021, the Company's Board of Directors approved a stock repurchase program authorizing the repurchase of up to \$30.0 million of our outstanding common stock from time to time on the open market or in privately negotiated transactions. In October 2022, the Company's Board of Directors increased the authorization to \$35.0 million. The Company repurchased a total of 855,956 shares at an average price of \$36.31 per share under the program through December 19, 2022.

On December 19, 2022, the Company's Board of Directors approved a new stock repurchase program to replace the prior program. The new program authorized the repurchase of up to \$25.0 million of our outstanding common stock from time to time on the open market or in privately negotiated transactions. The stock repurchase authorization is scheduled to expire on December 31, 2024. Under this program, the Company repurchased 502,525 shares of common stock at an average price of \$18.40 per share during 2023, and 46,497 shares of common stock at an average price of \$24.42 per share during 2022. As of December 31, 2023, the Company had \$14.6 million of remaining authority under the program.

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Note 20: Accumulated Other Comprehensive Income (Loss)

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

	Available- For-Sale Securities	Unrealized Losses on Debt Securities Transferred from Available- for-Sale to Held-to- Maturity	Cash Flow Hedges	Total
Balance, January 1, 2021	\$ 468	\$ —	\$ (17,664)	\$ (17,196)
Net unrealized holding (losses) gains recorded within other comprehensive income before income tax	(4,087)	—	11,138	7,051
Other comprehensive (loss) income before tax	(4,087)	—	11,138	7,051
Income tax (benefit) provision	(1,064)	—	1,958	894
Other comprehensive (loss) income- net of tax	(3,023)	—	9,180	6,157
Balance, December 31, 2021	\$ (2,555)	\$ —	\$ (8,484)	\$ (11,039)
Net unrealized holding (losses) gains recorded within other comprehensive income before income tax	(42,336)	—	19,091	(23,245)
Reclassification of securities available-for-sale to held-to-maturity	—	(5,402)	—	(5,402)
Amortization of net unrealized losses on securities transferred from available-for-sale to held-to-maturity	—	844	—	844
Other comprehensive (loss) income before tax	(42,336)	(4,558)	19,091	(27,803)
Income tax (benefit) provision	(9,060)	(1,039)	4,893	(5,206)
Other comprehensive (loss) income- net of tax	(33,276)	(3,519)	14,198	(22,597)
Balance, December 31, 2022	<u>\$ (35,831)</u>	<u>\$ (3,519)</u>	<u>\$ 5,714</u>	<u>\$ (33,636)</u>
Net unrealized holding gains (losses) recorded within other comprehensive income before income tax	7,339	—	(2,566)	4,773
Amortization of net unrealized losses on securities transferred from available-for-sale to held-to-maturity	—	778	—	778
Other comprehensive income (loss) before tax	7,339	778	(2,566)	5,551
Income tax provision (benefit)	1,682	198	(590)	1,290
Other comprehensive income (loss) - net of tax	5,657	580	(1,976)	4,261
Balance, December 31, 2023	<u>\$ (30,174)</u>	<u>\$ (2,939)</u>	<u>\$ 3,738</u>	<u>\$ (29,375)</u>

Note 21: Condensed Financial Information (Parent Company Only)

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

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**Condensed Balance
Sheets**

	Year Ended December 31,	
	2023	2022
Assets		
Cash and cash equivalents	\$ 11,593	\$ 22,259
Investment in common stock of subsidiaries	444,221	440,645
Premises and equipment, net	—	58
Accrued income and other assets	14,127	8,567
Total assets	<u>\$ 469,941</u>	<u>\$ 471,529</u>
Liabilities and shareholders' equity		
Subordinated debt, net of unamortized discounts and debt issuance costs of \$2,162 in 2023 and \$2,468 in 2022	\$ 104,838	\$ 104,532
Accrued expenses and other liabilities	2,308	2,023
Total liabilities	107,146	106,555
Shareholders' equity	362,795	364,974
Total liabilities and shareholders' equity	<u>\$ 469,941</u>	<u>\$ 471,529</u>

**Condensed Statements of
Income**

	Year Ended December 31,		
	2023	2022	2021
Income			
Dividends from bank subsidiary	\$ 12,000	\$ 8,000	\$ —
Gain on sale of premises and equipment	—	—	2,523
Other	188	285	75
Total income	<u>12,188</u>	<u>8,285</u>	<u>2,598</u>
Expenses			
Interest on borrowings	\$ 5,376	\$ 5,371	\$ 5,892
Salaries and employee benefits	1,203	1,147	1,037
Consulting and professional fees	1,572	1,814	2,178
Premises and equipment	126	201	548
Other	280	134	363
Total expenses	<u>8,557</u>	<u>8,667</u>	<u>10,018</u>
Income (loss) before income tax and equity in undistributed net income of subsidiaries	<u>3,631</u>	<u>(382)</u>	<u>(7,420)</u>
Income tax benefit	<u>(1,817)</u>	<u>(1,874)</u>	<u>(1,687)</u>
Income (loss) before equity in undistributed net income of subsidiaries	<u>5,448</u>	<u>1,492</u>	<u>(5,733)</u>
Equity in undistributed net income of subsidiaries	<u>2,969</u>	<u>34,049</u>	<u>53,847</u>
Net income	<u>\$ 8,417</u>	<u>\$ 35,541</u>	<u>\$ 48,114</u>

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**Condensed Statements of Comprehensive
Income**

	Year Ended December 31,		
	2023	2022	2021
Net income	\$ 8,417	\$ 35,541	\$ 48,114
Other comprehensive income (loss)			
Securities available-for-sale			
Net unrealized holding gains (losses) on securities available-for-sale recorded within other comprehensive income before income tax	7,339	(42,336)	(4,087)
Income tax provision (benefit)	1,682	(9,060)	(1,064)
Net effect on other comprehensive income (loss)	5,657	(33,276)	(3,023)
Securities held-to-maturity			
Reclassification of securities from available-for-sale to held-to-maturity	—	(5,402)	—
Amortization of net unrealized holding losses on securities transferred from available-for-sale to held-to-maturity	778	844	—
Income tax provision (benefit)	198	(1,039)	—
Net effect on other comprehensive income (loss)	580	(3,519)	—
Cash flow hedges			
Net unrealized holding (losses) gains on cash flow hedging derivatives recorded within other comprehensive income before income tax	(2,566)	19,091	11,138
Income tax (benefit) provision	(590)	4,893	1,958
Net effect on other comprehensive (loss) income	(1,976)	14,198	9,180
Total other comprehensive income (loss)	4,261	(22,597)	6,157
Comprehensive income	\$ 12,678	\$ 12,944	\$ 54,271

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**Condensed Statements of Cash
Flows**

	Year Ended December 31,		
	2023	2022	2021
Operating activities			
Net income	\$ 8,417	\$ 35,541	\$ 48,114
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiaries	(2,969)	(34,049)	(53,847)
Depreciation and amortization	318	329	1,081
Share-based compensation expense	256	795	835
Gain on sale of premises and equipment	—	—	(2,523)
Net change in other assets	(1,819)	350	(31)
Net change in other liabilities	358	(490)	775
Net cash provided by (used in) operating activities	4,561	2,476	(5,596)
Investing activities			
Net proceeds from sale of premises and equipment	—	—	8,116
Other investing activities	(3,578)	(2,727)	(3,561)
Net cash (used in) provided by investing activities	(3,578)	(2,727)	4,555
Financing activities			
Cash dividends paid	(2,156)	(2,317)	(2,415)
Net proceeds from issuance of subordinated debt	—	—	58,658
Repayment of subordinated debt	—	—	(35,000)
Repayment of Bank loan	—	—	(3,000)
Repurchase of common stock	(9,340)	(27,780)	(4,436)
Other, net	(153)	(250)	(441)
Net cash (used in) provided by financing activities	(11,649)	(30,347)	13,366
Net (decrease) increase in cash and cash equivalents	(10,666)	(30,598)	12,325
Cash and cash equivalents at beginning of year	22,259	52,857	40,532
Cash and cash equivalents at end of year	\$ 11,593	\$ 22,259	\$ 52,857

The prior year Condensed Statements of Income and Condensed Statements of Cash Flows presented above were voluntarily revised to correct an immaterial error. As a result, the following changes were made to the 2022 statements:

- Dividends received from subsidiary are presented in total income.
- Equity in undistributed net income of subsidiaries reflects the difference in subsidiary income and dividends received.

The above changes had no effect on 2022 net income.

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Note 22: Recent Accounting Pronouncements

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

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

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

- **Assets Measured at Amortized Cost:** The amendments in this update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The statements of income reflect the measurement of credit losses for newly recognized financial assets, as well as the expected increase or decrease of credit losses that have taken place during the period. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances.
- **Available-for-Sale Debt Securities:** Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. Available-for-sale accounting recognizes that value may be realized either through collection of contractual cash flows or through sale of the security. Therefore, the amendments limit the amount of the allowance for credit losses to the amount by which fair value is below amortized cost because the classification as available-for-sale is premised on an investment strategy that recognizes that the investment could be sold at fair value if cash collection would result in the realization of an amount less than fair value.
- In May 2019, the FASB issued ASU 2019-05 - *Financial Instruments - Credit Losses (Topic 326) - Targeted Transition Relief*. This ASU allows an option for preparers to irrevocably elect the fair value option, on an instrument-by-instrument basis, for eligible financial assets measured at amortized cost basis upon adoption of the credit losses standard. This increases the comparability of financial statement information provided by institutions that otherwise would have reported similar financial instruments using different measurement methodologies, potentially decreasing costs for financial statement preparers while providing more useful information to investors and other users.

The Company formed a current expected credit losses (“CECL”) working group that discussed implementation matters related to the completeness and accuracy of historical data, model development and corporate governance documentation. The new allowance model estimates credit losses over the expected life of the portfolio and includes a qualitative framework to account for drivers of losses that the quantitative model does not capture. The CECL working group discussed results from parallel model runs for each portfolio segment, assumptions related to unfunded commitments and economic forecast factors. Model validation was completed by an independent third party in the fourth quarter 2022.

The ASU allows for several different methods of calculating the Allowance for Credit Losses (“ACL”) and based on its analysis of observable data, the Company determined the discounted cash flow method to be the most appropriate for all its loan segments.

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The Company adopted this guidance on January 1, 2023 and recorded a \$3.0 million pre-tax one-time cumulative effect adjustment to the ACL in retained earnings on the consolidated balance sheet as of the beginning of 2023, as is required in the guidance. In addition, the Company recorded a one-time \$2.5 million pre-tax cumulative effect adjustment to the allowance for unfunded commitments in retained earnings on the consolidated balance sheet.

The qualitative impact of the new accounting standard is directed by many of the same factors that impacted the previous methodology for calculating the ACL, including but not limited to, quality and experience of staff, changes in the value of collateral, concentrations of credit in loan types or industries and changes to lending policies. In addition, the Company also uses reasonable and supportable forecasts. Examples of this are regression analyses of data from the Federal Open Market Committee quarterly economic projections for change in real GDP, housing price index and national unemployment.

The following table presents the impact of the adoption of ASC 326 as of January 1, 2023:

(dollars in thousands)	January 1, 2023		
	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption	As Reported Under ASC 326
Assets:			
Commercial loans			
Commercial and industrial	\$ 1,711	\$ (120)	\$ 1,591
Owner-occupied commercial real estate	651	62	713
Investor commercial real estate	1,099	(191)	908
Construction	2,074	(435)	1,639
Single tenant lease financing	10,519	(346)	10,173
Public finance	1,753	(135)	1,618
Healthcare finance	2,997	1,034	4,031
Small business lending	2,168	334	2,502
Franchise finance	3,988	(313)	3,675
Total commercial loans	26,960	(110)	26,850
Consumer loans			
Residential mortgage	1,559	406	1,965
Home equity	69	133	202
Other consumer	3,149	2,533	5,682
Total consumer loans	4,777	3,072	7,849
Total allowance for credit losses	\$ 31,737	\$ 2,962	\$ 34,699
Liabilities:			
Liability for off-balance sheet credit exposures	\$ —	\$ 2,504	\$ 2,504

The Company also performed an assessment to determine if an allowance for credit loss was needed for available-for-sale and held-to-maturity securities. The Company analyzed available-for-sale securities investment securities that were in an unrealized loss position as of January 1, 2023 and determined the decline in fair value for those securities was not related to credit, but rather related to changes in interest rates and general market conditions. As such, no ACL was recorded for available-for-sale securities. The Company analyzed held-to-maturity securities and recorded a \$0.3 million one-time cumulative adjustment to the allowance in retained earnings.

ASU 2020-04 - Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting (March 2020) and ASU 2022-06 - Deferral of sunset Date of Topic 848

In March 2020, FASB issued ASU 2020-04 to ease the potential burden in accounting for the transition away from the LIBOR on financial reporting. The ASU provides optional expedients and exceptions for applying GAAP to contract modification and hedge accounting relationships. The guidance is effective March 12, 2020 through December 31, 2024. The Company adopted this guidance in 2023 and it did not have a material impact on the condensed consolidated financial statements.

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ASU 2022-02 - Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures (March 2022)

In March 2022, the FASB issued ASU No. 2022-02, Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures. This ASU eliminates the separate recognition and measurement guidance for Troubled Debt Restructurings ("TDRs") by creditors. The elimination of the TDR guidance may be adopted prospectively for loan modifications after adoption or on a modified retrospective basis, which would also apply to loans previously modified, resulting in a cumulative effect adjustment to retained earnings in the period of adoption for changes in the allowance for credit losses. The ASU requires an entity to disclose current-period gross write-offs by year of origination for financing receivables within the scope of Subtopic 326-20. This guidance is effective on January 1, 2023, with early adoption permitted. Using a prospective approach, the Company adopted this guidance on January 1, 2023 and it did not have a material impact on the condensed consolidated financial statements.

ASU 2023-07 - Segment Reporting (Topic 280): Improvements to Reportable Segments (November 2023)

In November 2023, the FASB issued ASU No. 2023-07, Segment Reporting (Topic 280) - Improvements to Reportable Segments. This ASU enhances financial reporting by requiring disclosure of incremental segment information on an annual and interim basis. The guidance is effective for fiscal years beginning after December 15, 2023 and for interim periods within fiscal years beginning after December 15, 2024 with early adoption permitted. The Company is currently evaluating the impact of this ASU on its condensed consolidated financial statements.

ASU 2023-09 - Income Taxes (Topic 740): Improvements to Income Tax Disclosures (December 2023)

In December 2023, the FASB issued ASU No. 2023-09, Income Taxes (Topic 740) - Improvements to Income Tax Disclosures. This ASU enhances the transparency and usefulness of income tax disclosures, which addresses investor requests for more transparency about income tax disclosures related primarily to the rate reconciliation and income taxes paid information. The guidance is effective for annual periods beginning after December 15, 2024 with early adoption permitted. The Company is currently evaluating the impact of this ASU on its condensed consolidated financial statements.