

Edgar Filing: First Internet Bancorp - Form 10-Q

First Internet Bancorp  
Form 10-Q  
November 09, 2018

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period ended September 30, 2018

OR

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

For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 001-35750

First Internet Bancorp

(Exact Name of Registrant as Specified in Its Charter)

Indiana	20-3489991
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

11201 USA Parkway	46037
Fishers, IN	
(Address of Principal Executive Offices)	(Zip Code)

(317) 532-7900

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

Large Accelerated Filer <input type="checkbox"/>	Accelerated Filer <input checked="" type="checkbox"/>
Non-accelerated Filer <input type="checkbox"/>	Smaller Reporting Company <input type="checkbox"/>
Emerging growth company <input type="checkbox"/>	

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

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

As of November 2, 2018, the registrant had 10,181,675 shares of common stock issued and outstanding.

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Cautionary Note Regarding Forward-Looking Statements

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

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

## PART I

## ITEM 1. FINANCIAL STATEMENTS

## First Internet Bancorp

## Condensed Consolidated Balance Sheets

(Amounts in thousands except share data)

	September 30, 2018	December 31, 2017
	(Unaudited)	
Assets		
Cash and due from banks	\$ 3,517	\$ 4,539
Interest-bearing deposits	82,273	43,442
Total cash and cash equivalents	85,790	47,981
Securities available-for-sale, at fair value (amortized cost of \$491,726 and \$481,357 in 2018 and 2017, respectively)	468,997	473,275
Securities held-to-maturity, at amortized cost (fair value of \$19,510 and \$19,083 in 2018 and 2017, respectively)	20,200	19,209
Loans held-for-sale (includes \$23,493 and \$23,571 at fair value in 2018 and 2017, respectively)	23,493	51,407
Loans	2,493,622	2,091,193
Allowance for loan losses	(16,704	) (14,970 )
Net loans	2,476,918	2,076,223
Accrued interest receivable	14,472	11,944
Federal Home Loan Bank of Indianapolis stock	22,050	19,575
Cash surrender value of bank-owned life insurance	35,819	35,105
Premises and equipment, net	10,041	10,058
Goodwill	4,687	4,687
Other real estate owned	5,041	5,041
Accrued income and other assets	35,410	13,182
Total assets	\$ 3,202,918	\$ 2,767,687
Liabilities and Shareholders' Equity		
Liabilities		
Noninterest-bearing deposits	\$ 42,750	\$ 44,686
Interest-bearing deposits	2,403,814	2,040,255
Total deposits	2,446,564	2,084,941
Advances from Federal Home Loan Bank	425,160	410,176
Subordinated debt, net of unamortized discounts and debt issuance costs of \$1,163 and \$1,274 in 2018 and 2017, respectively	33,837	36,726
Accrued interest payable	887	311
Accrued expenses and other liabilities	8,730	11,406
Total liabilities	2,915,178	2,543,560
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, no par value; 4,913,779 shares authorized; issued and outstanding - none	—	—
Voting common stock, no par value; 45,000,000 shares authorized; 10,181,675 and 8,411,077 shares issued and outstanding in 2018 and 2017, respectively	227,454	172,043
	—	—

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Nonvoting common stock, no par value; 86,221 shares authorized; issued and  
outstanding - none

Retained earnings	74,733	57,103
Accumulated other comprehensive loss	(14,447 )	(5,019 )
Total shareholders' equity	287,740	224,127
Total liabilities and shareholders' equity	\$ 3,202,918	\$ 2,767,687

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
Interest Income				
Loans	\$26,019	\$ 18,922	\$71,833	\$ 49,494
Securities – taxable	2,659	2,582	7,703	7,515
Securities – non-taxable	698	697	2,109	2,090
Other earning assets	847	493	1,973	960
Total interest income	30,223	22,694	83,618	60,059
Interest Expense				
Deposits	11,650	6,594	29,146	16,617
Other borrowed funds	2,603	1,909	7,626	4,820
Total interest expense	14,253	8,503	36,772	21,437
Net Interest Income	15,970	14,191	46,846	38,622
Provision for Loan Losses	888	1,336	2,405	3,693
Net Interest Income After Provision for Loan Losses	15,082	12,855	44,441	34,929
Noninterest Income				
Service charges and fees	236	226	697	657
Mortgage banking activities	1,402	2,535	4,577	6,306
Gain on sale of loans	—	—	414	—
Other	356	374	1,025	1,039
Total noninterest income	1,994	3,135	6,713	8,002
Noninterest Expense				
Salaries and employee benefits	5,704	5,197	17,436	15,463
Marketing, advertising and promotion	601	741	1,925	1,803
Consulting and professional services	709	897	2,193	2,474
Data processing	368	247	913	729
Loan expenses	241	262	738	724
Premises and equipment	1,244	1,080	3,689	3,058
Deposit insurance premium	441	375	1,386	990
Other	737	602	2,164	1,781
Total noninterest expense	10,045	9,401	30,444	27,022
Income Before Income Taxes	7,031	6,589	20,710	15,909
Income Tax Provision	743	1,694	2,386	4,181
Net Income	\$6,288	\$ 4,895	\$18,324	\$ 11,728
Income Per Share of Common Stock				
Basic	\$0.61	\$ 0.72	\$1.99	\$ 1.76
Diluted	\$0.61	\$ 0.71	\$1.98	\$ 1.75
Weighted-Average Number of Common Shares Outstanding				
Basic	10,261,967	6,834,011	9,230,146	6,656,160
Diluted	10,273,766	6,854,614	9,250,839	6,683,379
Dividends Declared Per Share	\$0.06	\$ 0.06	\$0.18	\$ 0.18

See Notes to Condensed Consolidated Financial Statements



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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Net income	\$6,288	\$4,895	\$18,324	\$11,728
Other comprehensive income				
Net unrealized holding (losses) gains on securities available-for-sale recorded within other comprehensive income before income tax	(3,063 )	1,231	(12,301 )	6,287
Reclassification adjustment for losses realized	—	8	—	8
Net unrealized holding gains on cash flow hedging derivatives recorded within other comprehensive income tax	1,366	—	408	—
Other comprehensive (loss) income before income tax	(1,697 )	1,239	(11,893 )	6,295
Income tax (benefit) provision	(1,328 )	483	(3,528 )	2,062
Other comprehensive (loss) income	(369 )	756	(8,365 )	4,233
Comprehensive income	\$5,919	\$5,651	\$9,959	\$15,961

See Notes to Condensed Consolidated Financial Statements



First Internet Bancorp

Condensed Consolidated Statement of Shareholders' Equity - Unaudited

Nine Months Ended September 30, 2018

(Amounts in thousands except per share data)

	Voting and Nonvoting Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance, January 1, 2018	\$172,043	\$57,103	\$ (5,019 )	\$ 224,127
Impact of adoption of new accounting standards <sup>(1)</sup>	—	1,063	(1,063 )	—
Net income	—	18,324	—	18,324
Other comprehensive loss	—	—	(8,365 )	(8,365 )
Dividends declared (\$0.18 per share)	—	(1,757 )	—	(1,757 )
Net cash proceeds from common stock issuance	54,334	—	—	54,334
Recognition of the fair value of share-based compensation	1,257	—	—	1,257
Deferred stock rights and restricted stock units issued in lieu of cash dividends payable on outstanding deferred stock rights and restricted stock units	30	—	—	30
Common stock redeemed for the net settlement of share-based awards	(210 )	—	—	(210 )
Balance, September 30, 2018	\$227,454	\$74,733	\$ (14,447 )	\$ 287,740

(1) Represents the impact of adopting Accounting Standards Update (“ASU”) 2018-02 and ASU 2016-01. ASU 2018-02 increased retained earnings and accumulated other comprehensive loss by \$1.1 million. ASU 2016-01 decreased retained earnings and accumulated other comprehensive loss by \$0.1 million. See Note 12 to the condensed consolidated financial statements for more information.

See Notes to Condensed Consolidated Financial Statements

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

	Nine Months Ended September 30,	
	2018	2017
Operating Activities		
Net income	\$18,324	\$11,728
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,262	3,876
Increase in cash surrender value of bank-owned life insurance	(714 )	(661 )
Provision for loan losses	2,405	3,693
Share-based compensation expense	1,257	787
Loss (gain) from sale of available-for-sale securities	—	8
Loans originated for sale	(282,527)	(302,887 )
Proceeds from sale of loans	287,556	317,170
Gain on loans sold	(5,201 )	(5,876 )
Gain on sale of other real estate owned	(105 )	—
Decrease (increase) in fair value of loans held-for-sale	250	(519 )
(Gain) loss on derivatives	(100 )	89
Net change in accrued income and other assets	(149 )	(2,310 )
Net change in accrued expenses and other liabilities	(1,924 )	1,530
Net cash provided by operating activities	23,334	26,628
Investing Activities		
Net loan activity, excluding purchases	(274,507)	(629,541 )
Proceeds from sale of other real estate owned	332	30
Net change in interest-bearing time deposits	—	250
Maturities and calls of securities available-for-sale	48,938	50,165
Proceeds from sale of securities available-for-sale	—	9,192
Purchase of securities available-for-sale	(65,289 )	(90,306 )
Purchase of securities held-to-maturity	(1,000 )	(2,550 )
Purchase of Federal Home Loan Bank of Indianapolis stock	(2,475 )	(10,665 )
Purchase of bank-owned life insurance	—	(10,000 )
Purchase of premises and equipment	(1,161 )	(821 )
Loans purchased	(132,041)	(42,345 )
Net proceeds from sale of portfolio loans	25,717	26,679
Other investing activities	(10,166 )	—
Net cash used in investing activities	(411,652)	(699,912 )
Financing Activities		
Net increase in deposits	361,623	534,161
Cash dividends paid	(1,620 )	(1,283 )
Repayment of subordinated debt	(3,000 )	—
Proceeds from advances from Federal Home Loan Bank	225,000	447,000
Repayment of advances from Federal Home Loan Bank	(210,000)	(271,805 )
Net proceeds from common stock issuance	54,334	51,636
Other, net	(210 )	(173 )
Net cash provided by financing activities	426,127	759,536
Net Increase in Cash and Cash Equivalents	37,809	86,252
Cash and Cash Equivalents, Beginning of Period	47,981	39,452

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Cash and Cash Equivalents, End of Period	\$85,790	\$125,704
Supplemental Disclosures		
Cash paid during the period for interest	\$36,196	\$21,312
Cash paid during the period for taxes	360	2,922
Loans transferred to other real estate owned	227	648
Cash dividends declared, paid in subsequent period	611	504
Securities purchased during the period, settled in subsequent period	—	1,158
Transfer of other equity investments from securities available-for-sale to other assets in accordance with adoption of ASU 2016-01	2,932	—
See Notes to Condensed Consolidated Financial Statements		

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First Internet Bancorp

Notes to Condensed Consolidated Financial Statements – Unaudited

(Table amounts in thousands except share and per share data)

Note 1: Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information or footnotes necessary for a complete presentation of financial condition, results of operations, or cash flows in accordance with GAAP. In our opinion, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation have been included. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results expected for the year ending December 31, 2018 or any other period. The September 30, 2018 condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the First Internet Bancorp Annual Report on Form 10-K for the year ended December 31, 2017.

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

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

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

Certain reclassifications have been made to the 2017 financial statements to conform to the presentation of the 2018 financial statements. These reclassifications had no effect on net income.

Note 2: Earnings Per Share

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

The following is a reconciliation of the weighted-average common shares for the basic and diluted earnings per share computations for the three and nine months ended September 30, 2018 and 2017.

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2018	2017	2018	2017
Basic earnings per share				
Net income	\$6,288	\$ 4,895	\$18,324	\$ 11,728
Weighted-average common shares	10,261,968	8,340,011	9,230,149	6,656,160
Basic earnings per common share	\$0.61	\$ 0.72	\$1.99	\$ 1.76
Diluted earnings per share				
Net income	\$6,288	\$ 4,895	\$18,324	\$ 11,728
Weighted-average common shares	10,261,968	8,340,011	9,230,149	6,656,160
Dilutive effect of warrants	—	—	—	8,094
Dilutive effect of equity compensation	11,799	20,603	20,690	19,125
Weighted-average common and incremental shares	10,273,767	8,360,614	9,250,839	6,683,379
Diluted earnings per common share	\$0.61	\$ 0.71	\$1.98	\$ 1.75

Note 3: Securities

The following tables summarize securities available-for-sale and securities held-to-maturity as of September 30, 2018 and December 31, 2017.

	September 30, 2018			
	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Securities available-for-sale				
U.S. Government-sponsored agencies	\$115,176	\$20	\$(2,436)	\$112,760
Municipal securities	97,160	39	(6,119)	91,080
Mortgage-backed securities	237,703	33	(12,044)	225,692
Asset-backed securities	5,003	—	(43)	4,960
Corporate securities	36,684	41	(2,220)	34,505
Total available-for-sale	\$491,726	\$133	\$(22,862)	\$468,997

	September 30, 2018			
	Amortized Cost	Gross Unrealized		Fair Value
		Gain	Losses	
Securities held-to-maturity				
Municipal securities	\$10,159	\$—	\$(640)	\$9,519
Corporate securities	10,041	24	(74)	9,991
Total held-to-maturity	\$20,200	\$24	\$(714)	\$19,510

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	December 31, 2017			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Securities available-for-sale				
U.S. Government-sponsored agencies	\$133,424	\$531	\$(765)	\$133,190
Municipal securities	97,370	366	(1,359)	96,377
Mortgage-backed securities	215,452	15	(5,747)	209,720
Asset-backed securities	5,000	9	—	5,009
Corporate securities	27,111	103	(1,167)	26,047
Other securities	3,000	—	(68)	2,932
Total available-for-sale	\$481,357	\$1,024	\$(9,106)	\$473,275

	December 31, 2017			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Securities held-to-maturity				
Municipal securities	\$10,164	\$40	\$(357)	\$9,847
Corporate securities	9,045	191	—	9,236
Total held-to-maturity	\$19,209	\$231	\$(357)	\$19,083

The carrying value of securities at September 30, 2018 is shown below by their contractual maturity date. Actual maturities will differ because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale	
	Amortized	Fair
	Cost	Value
One to five years	\$ 425	\$