

Edgar Filing: First Internet Bancorp - Form 10-Q

First Internet Bancorp
Form 10-Q
August 02, 2016

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period ended June 30, 2016

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer ☐

Accelerated Filer ☒

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Non-accelerated Filer ☐ (Do not check if a smaller reporting company) ☐ Smaller Reporting Company ☐

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 July 29, 2016, the registrant had 5,533,050 shares of common stock issued and outstanding.

Cautionary Note Regarding Forward-Looking Statements

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

(i)

PART I

ITEM 1. FINANCIAL STATEMENTS

First Internet Bancorp

Condensed Consolidated Balance Sheets

(Amounts in thousands except share data)

	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Cash and due from banks	\$1,868	\$1,063
Interest-bearing demand deposits	68,140	24,089
Total cash and cash equivalents	70,008	25,152
Interest-bearing time deposits	250	1,000
Securities available-for-sale, at fair value (amortized cost of \$430,070 and \$215,576 in 2016 and 2015, respectively)	433,806	213,698
Loans held-for-sale (includes \$38,128 and \$24,065 at fair value in 2016 and 2015, respectively)	44,503	36,518
Loans	1,111,622	953,859
Allowance for loan losses	(10,016)	(8,351)
Net loans	1,101,606	945,508
Accrued interest receivable	5,508	4,105
Federal Home Loan Bank of Indianapolis stock	8,595	8,595
Cash surrender value of bank-owned life insurance	12,932	12,727
Premises and equipment, net	9,267	8,521
Goodwill	4,687	4,687
Other real estate owned	4,488	4,488
Accrued income and other assets	6,818	4,871
Total assets	\$1,702,468	\$1,269,870
Liabilities and Shareholders' Equity		
Liabilities		
Noninterest-bearing deposits	\$28,066	\$23,700
Interest-bearing deposits	1,360,867	932,354
Total deposits	1,388,933	956,054
Advances from Federal Home Loan Bank	147,974	190,957
Subordinated debt, net of unamortized discounts and debt issuance costs of \$222 and \$276 in 2016 and 2015, respectively	12,778	12,724
Accrued interest payable	138	117
Accrued expenses and other liabilities	16,966	5,688
Total liabilities	1,566,789	1,165,540
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; 5,533,050 and 4,481,347 shares issued and outstanding in 2016 and 2015, respectively	95,642	72,559
Nonvoting common stock, no par value; 86,221 shares authorized; issued and outstanding - none	—	—
Retained earnings	37,630	32,980

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Accumulated other comprehensive income (loss)	2,407	(1,209)
Total shareholders' equity	135,679	104,330
Total liabilities and shareholders' equity	\$1,702,468	\$ 1,269,870
See Notes to Condensed Consolidated Financial Statements		

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest Income				
Loans	\$11,661	\$ 9,043	\$22,850	\$17,433
Securities – taxable	1,747	945	2,916	1,667
Securities – non-taxable	368	59	533	59
Other earning assets	195	83	365	158
Total interest income	13,971	10,130	26,664	19,317
Interest Expense				
Deposits	3,930	2,137	6,818	4,090
Other borrowed funds	735	421	1,399	881
Total interest expense	4,665	2,558	8,217	4,971
Net Interest Income	9,306	7,572	18,447	14,346
Provision for Loan Losses	924	304	1,870	746
Net Interest Income After Provision for Loan Losses	8,382	7,268	16,577	13,600
Noninterest Income				
Service charges and fees	215	193	415	369
Mortgage banking activities	3,295	2,214	5,549	5,100
Gain on sale of securities	177	—	177	—
Loss on asset disposals	(48)	(33)	(64)	(47)
Other	109	102	211	202
Total noninterest income	3,748	2,476	6,288	5,624
Noninterest Expense				
Salaries and employee benefits	4,329	3,787	8,227	7,365
Marketing, advertising, and promotion	434	334	898	786
Consulting and professional services	895	564	1,533	1,156
Data processing	275	233	549	481
Loan expenses	200	181	384	362
Premises and equipment	963	691	1,761	1,333
Deposit insurance premium	215	160	395	310
Other	564	377	1,133	791
Total noninterest expense	7,875	6,327	14,880	12,584
Income Before Income Taxes	4,255	3,417	7,985	6,640
Income Tax Provision	1,421	1,152	2,719	2,312
Net Income	\$2,834	\$ 2,265	\$5,266	\$4,328
Income Per Share of Common Stock				
Basic	\$0.57	\$ 0.50	\$1.11	\$0.96
Diluted	\$0.57	\$ 0.50	\$1.10	\$0.95
Weighted-Average Number of Common Shares Outstanding				
Basic	4,972,759	4,529,823	4,757,243	4,523,336
Diluted	4,992,025	4,550,034	4,782,700	4,536,736
Dividends Declared Per Share	\$0.06	\$ 0.06	\$0.12	\$0.12

See Notes to Condensed Consolidated Financial Statements

First Internet Bancorp

Condensed Consolidated Statements of Comprehensive Income – Unaudited

(Amounts in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	\$2,834	\$2,265	\$5,266	\$4,328
Other comprehensive income (loss)				
Net unrealized holding gains (losses) on securities available-for-sale recorded within other comprehensive income before income tax	3,917	(2,539)	5,791	(1,721)
Reclassification adjustment for gains realized	(177)	—	(177)	—
Other comprehensive income (loss) before income tax	3,740	(2,539)	5,614	(1,721)
Income tax provision (benefit)	1,331	(909)	1,998	(618)
Other comprehensive income (loss)	2,409	(1,630)	3,616	(1,103)
Comprehensive income	\$5,243	\$635	\$8,882	\$3,225

See Notes to Condensed Consolidated Financial Statements

First Internet Bancorp

Condensed Consolidated Statement of Shareholders' Equity - Unaudited

Six Months Ended June 30, 2016

(Amounts in thousands except per share data)

	Voting and Nonvoting Common Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
Balance, January 1, 2016	\$ 72,559	\$ (1,209)	\$ 32,980	\$ 104,330
Net income	—	—	5,266	5,266
Other comprehensive income	—	3,616	—	3,616
Dividends declared (\$0.12 per share)	—	—	(616)	(616)
Net cash proceeds from common stock issuance	22,754	—	—	22,754
Recognition of the fair value of share-based compensation	358	—	—	358
Deferred stock rights and restricted stock units issued in lieu of cash dividends payable on outstanding deferred stock rights and restricted stock units	14	—	—	14
Excess tax benefit on share-based compensation	48	—	—	48
Common stock redeemed for the net settlement of share-based awards	(91)	—	—	(91)
Balance, June 30, 2016	\$ 95,642	\$ 2,407	\$ 37,630	\$ 135,679

See Notes to Condensed Consolidated Financial Statements

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

	Six Months Ended June 30,	
	2016	2015
Operating Activities		
Net income	\$5,266	\$4,328
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,468	922
Increase in cash surrender value of bank-owned life insurance	(205)	(199)
Provision for loan losses	1,870	746
Share-based compensation expense	358	458
Gain from sale of available-for-sale securities	(177)	—
Loans originated for sale	(259,095)	(277,913)
Proceeds from sale of loans	256,592	287,065
Gain on loans sold	(4,496)	(4,845)
(Increase) decrease in fair value of loans held-for-sale	(986)	492
Gain on derivatives	(67)	(747)
Net change in accrued income and other assets	(3,942)	250
Net change in accrued expenses and other liabilities	1,485	(563)
Net cash (used in) provided by operating activities	(1,929)	9,994
Investing Activities		
Net loan activity, excluding purchases	(136,643)	(81,290)
Net change in interest-bearing time deposits	750	750
Maturities of securities available-for-sale	16,303	10,515
Proceeds from sale of securities available-for-sale	49,430	—
Purchase of securities available-for-sale	(272,129)	(65,821)
Purchase of Federal Home Loan Bank of Indianapolis stock	—	(1,596)
Purchase of premises and equipment	(1,653)	(1,586)
Loans purchased	(21,325)	—
Net cash used in investing activities	(365,267)	(139,028)
Financing Activities		
Net increase in deposits	432,879	97,905
Cash dividends paid	(538)	(534)
Proceeds from advances from Federal Home Loan Bank	40,000	180,000
Repayment of advances from Federal Home Loan Bank	(83,000)	(146,000)
Net proceeds from common stock issuance	22,754	—
Other, net	(43)	(24)
Net cash provided by financing activities	412,052	131,347
Net Increase in Cash and Cash Equivalents	44,856	2,313
Cash and Cash Equivalents, Beginning of Period	25,152	28,289
Cash and Cash Equivalents, End of Period	\$70,008	\$30,602
Supplemental Disclosures		
Cash paid during the period for interest	\$8,196	\$4,960
Cash paid during the period for taxes	2,911	1,070
Cash dividends declared, paid in subsequent period	331	267
Securities purchased during the period, settled in subsequent period	8,705	—
See Notes to Condensed Consolidated Financial Statements		

First Internet Bancorp

Notes to Condensed Consolidated Financial Statements – Unaudited

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

Note 1: Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and pursuant to the rules and regulations of the SEC. Accordingly, they do not include all of the information or footnotes necessary for a complete presentation of financial condition, results of operations, or cash flows in accordance with GAAP. In our opinion, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation have been included. The results of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the results expected for the year ending December 31, 2016 or any other period. The June 30, 2016 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, 2015.

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 wholly-owned subsidiary, JKH Realty Services, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

Certain reclassifications have been made to the 2015 financial statements to conform to the presentation of the 2016 financial statements. These reclassifications had no effect on net income.

Note 2: Earnings Per Share

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

The following is a reconciliation of the weighted-average common shares for the basic and diluted earnings per share computations for the three and six months ended June 30, 2016 and 2015.

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2016	2015	2016	2015
Basic earnings per share				
Net income	\$2,834	\$ 2,265	\$5,266	\$ 4,328
Weighted-average common shares	4,972,750	4,529,823	4,757,248	4,523,336
Basic earnings per common share	\$0.57	\$ 0.50	\$1.11	\$ 0.96
Diluted earnings per share				
Net income	\$2,834	\$ 2,265	\$5,266	\$ 4,328
Weighted-average common shares	4,972,750	4,529,823	4,757,248	4,523,336
Dilutive effect of warrants	9,743	7,006	10,518	3,522
Dilutive effect of equity compensation	9,523	13,205	14,939	