

FIRST MERCHANTS CORP
Form 10-Q
November 09, 2018

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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 0-17071

FIRST MERCHANTS CORPORATION
(Exact name of registrant as specified in its charter)

Indiana 35-1544218
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

200 East Jackson Street, Muncie, IN 47305-2814
(Address of principal executive offices) (Zip code)

(Registrant's telephone number, including area code): (765) 747-1500

Not Applicable
(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 (§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

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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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 31, 2018, there were 49,658,419 outstanding common shares of the registrant.

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GLOSSARY OF DEFINED TERMS

FIRST MERCHANTS CORPORATION

Arlington Bank	The Arlington Bank, which was acquired by the Corporation on May 19, 2017.
ASC	Accounting Standards Codification
Bank	First Merchants Bank, a wholly-owned subsidiary of the Corporation
CET1	Common Equity Tier 1
CMT	Constant Maturity Treasury
Corporation	First Merchants Corporation
ESPP	Employee Stock Purchase Plan
FDIC	Federal Deposit Insurance Corporation
FHLB	Federal Home Loan Bank
FTE	Fully taxable equivalent
GAAP	Generally Accepted Accounting Principles
IAB	Independent Alliance Banks, Inc., which was acquired by the Corporation on July 14, 2017.
OREO	Other real estate owned
RSA	Restricted Stock Awards
TEFRA	Tax Equity and Fiscal Responsibility Act

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(table dollar amounts in thousands, except share data)

CONSOLIDATED CONDENSED BALANCE SHEETS

	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Cash and cash equivalents	\$ 142,501	\$ 154,905
Interest-bearing time deposits	66,763	35,027
Investment securities available for sale	1,149,162	999,947
Investment securities held to maturity (fair value of \$468,452 and \$568,208)	476,089	560,655
Loans held for sale	3,022	7,216
Loans, net of allowance for loan losses of \$78,406 and \$75,032	7,009,665	6,676,167
Premises and equipment	93,728	95,852
Federal Home Loan Bank stock	24,588	23,825
Interest receivable	38,531	37,130
Goodwill	445,355	445,355
Other intangibles	26,054	31,148
Cash surrender value of life insurance	223,865	223,557
Other real estate owned	8,859	10,373
Tax asset, deferred and receivable	25,933	23,983
Other assets	53,167	42,338
TOTAL ASSETS	\$ 9,787,282	\$ 9,367,478
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 1,464,190	\$ 1,761,553
Interest-bearing	6,168,962	5,410,977
Total Deposits	7,633,152	7,172,530
Borrowings:		
Federal funds purchased	90,000	144,038
Securities sold under repurchase agreements	118,824	136,623
Federal Home Loan Bank advances	385,458	414,377
Subordinated debentures and term loans	138,408	139,349
Total Borrowings	732,690	834,387
Interest payable	5,920	4,390
Other liabilities	54,094	52,708
Total Liabilities	8,425,856	8,064,015
COMMITMENTS AND CONTINGENT LIABILITIES		
STOCKHOLDERS' EQUITY		
Cumulative Preferred Stock, \$1,000 par value, \$1,000 liquidation value:		
Authorized - 600 shares		
Issued and outstanding - 125 shares	125	125
Common Stock, \$.125 stated value:		
Authorized - 100,000,000 shares		
Issued and outstanding - 49,304,542 and 49,158,238 shares	6,163	6,145
Additional paid-in capital	837,996	834,870

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Retained earnings	552,551	465,231
Accumulated other comprehensive loss	(35,409)(2,908)
Total Stockholders' Equity	1,361,426	1,303,463
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 9,787,282	\$ 9,367,478

See NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(table dollar amounts in thousands, except share data)

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
INTEREST INCOME				
Loans receivable:				
Taxable	\$88,479	\$71,491	\$251,409	\$187,234
Tax exempt	3,761	2,851	10,989	7,676
Investment securities:				
Taxable	5,514	4,524	16,044	13,012
Tax exempt	6,493	5,455	18,865	15,549
Deposits with financial institutions	270	284	1,034	442
Federal Home Loan Bank stock	283	242	950	635
Total Interest Income	104,800	84,847	299,291	224,548
INTEREST EXPENSE				
Deposits	13,685	6,710	34,852	15,971
Federal funds purchased	229	175	670	506
Securities sold under repurchase agreements	174	133	519	331
Federal Home Loan Bank advances	2,137	1,464	6,141	3,619
Subordinated debentures and term loans	2,089	1,945	6,136	5,602
Total Interest Expense	18,314	10,427	48,318	26,029
NET INTEREST INCOME	86,486	74,420	250,973	198,519
Provision for loan losses	1,400	2,083	5,563	7,343
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	85,086	72,337	245,410	191,176
OTHER INCOME				
Service charges on deposit accounts	5,619	5,044	15,434	13,656
Fiduciary and wealth management fees	3,673	3,783	11,064	10,556
Other customer fees	5,038	4,553	14,991	13,298
Increase in cash surrender value of life insurance	961	1,058	2,946	2,773
Gains on life insurance benefits	—	517	198	2,671
Net gains and fees on sales of loans	1,841	2,317	5,262	5,209
Net realized gains on sales of available for sale securities	1,285	332	4,016	1,497
Other income	1,110	1,064	3,368	2,288
Total Other Income	19,527	18,668	57,279	51,948
OTHER EXPENSES				
Salaries and employee benefits	32,936	33,244	97,354	86,052
Net occupancy	4,586	4,371	13,604	12,552
Equipment	3,483	3,478	10,707	9,192
Marketing	1,216	1,021	3,574	2,378
Outside data processing fees	3,422	3,162	9,848	8,864
Printing and office supplies	334	366	992	905
Intangible asset amortization	1,650	1,698	5,094	3,592

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FDIC assessments	856	704	2,286	1,853
Other real estate owned and foreclosure expenses	455	330	1,219	1,592
Professional and other outside services	1,844	5,843	5,174	10,843
Other expenses	4,240	4,491	12,361	11,300
Total Other Expenses	55,022	58,708	162,213	149,123
INCOME BEFORE INCOME TAX	49,591	32,297	140,476	94,001
Income tax expense	8,478	7,939	23,050	22,314
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	\$41,113	\$24,358	\$117,426	\$71,687
Per Share Data:				
Basic Net Income Available to Common Stockholders	\$0.83	\$0.50	\$2.38	\$1.64
Diluted Net Income Available to Common Stockholders	\$0.83	\$0.50	\$2.37	\$1.63
Cash Dividends Paid	\$0.22	\$0.18	\$0.62	\$0.51
Average Diluted Shares Outstanding (in thousands)	49,492	48,644	49,458	44,063

See NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(table dollar amounts in thousands, except share data)

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$41,113	\$24,358	\$117,426	\$71,687
Other comprehensive income (loss), net of tax:				
Unrealized holding gain (loss) on securities available for sale arising during the period, net of tax of \$2,596, \$4,101, \$7,470 and \$4,374	(9,765)	(7,617)	(30,032)	8,124
Unrealized gain (loss) on cash flow hedges arising during the period, net of tax of \$44, \$3, \$212 and \$134	166	(7)	1,039	(246)
Reclassification adjustment for net gains included in net income, net of tax of \$250, \$32, \$766 and \$258	(942)	(60)	(2,882)	