

FIRST MID ILLINOIS BANCSHARES INC  
Form 10-Q  
November 09, 2018

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

FORM 10-Q

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 0-13368

FIRST MID-ILLINOIS BANCSHARES, INC.  
(Exact name of Registrant as specified in its charter)

Delaware 37-1103704  
(State or other jurisdiction of incorporation or organization) (I.R.S. employer identification no.)

1421 Charleston Avenue,  
Mattoon, Illinois 61938  
(Address of principal executive offices) (Zip code)

(217) 234-7454  
(Registrant's telephone number, including area code)

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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for 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, 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. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
(Do not check if a 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 Act).  Yes  No

As of November 8, 2018, 15,297,425 common shares, \$4.00 par value, were outstanding.

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## PART I

## ITEM 1. FINANCIAL STATEMENTS

First Mid-Illinois Bancshares, Inc.

Condensed Consolidated Balance Sheets

(In thousands, except share data)

|   | (Unaudited)           |                      |
|---|-----------------------|----------------------|
|   | September 30,<br>2018 | December 31,<br>2017 |
| Assets  |                       |                      |
| Cash and due from banks:  |                       |                      |
| Non-interest bearing  | \$ 53,388             | \$ 75,398            |
| Interest bearing  | 10,435                | 12,990               |
| Federal funds sold  | 662                   | 491                  |
| Cash and cash equivalents   | 64,485                | 88,879               |
| Certificates of deposit investments   | 2,183                 | 1,685                |
| Investment securities:  |                       |                      |
| Available-for-sale, at fair value   | 599,080               | 578,579              |
| Held-to-maturity, at amortized cost (estimated fair value of \$67,395 and \$68,457 at September 30, 2018 and December 31, 2017, respectively) | 69,409                | 69,332               |
| Loans held for sale   | 940                   | 1,025                |
| Loans   | 2,399,220             | 1,938,476            |
| Less allowance for loan losses  | (23,839 )             | (19,977 )            |
| Net loans   | 2,375,381             | 1,918,499            |
| Interest receivable   | 14,928                | 10,832               |
| Other real estate owned   | 2,093                 | 2,754                |
| Premises and equipment, net   | 47,327                | 38,266               |
| Goodwill, net   | 86,641                | 60,150               |
| Intangible assets, net  | 15,373                | 10,679               |
| Bank owned life insurance   | 51,443                | 41,883               |
| Other assets  | 26,194                | 18,976               |
| Total assets  | \$ 3,355,477          | \$ 2,841,539         |
| Liabilities and Stockholders' Equity  |                       |                      |
| Deposits:   |                       |                      |
| Non-interest bearing  | \$ 493,935            | \$ 480,283           |
| Interest bearing  | 2,157,462             | 1,794,356            |
| Total deposits  | 2,651,397             | 2,274,639            |
| Securities sold under agreements to repurchase  | 98,875                | 155,388              |
| Interest payable  | 1,400                 | 602                  |
| FHLB borrowings   | 120,736               | 60,038               |
| Other borrowings  | 29,500                | 10,313               |
| Junior subordinated debentures  | 28,958                | 24,000               |
| Other liabilities   | 7,778                 | 8,595                |
| Total liabilities   | 2,938,644             | 2,533,575            |
| Stockholders' Equity:   |                       |                      |
| Common stock, \$4 par value; authorized 30,000,000 shares; issued 15,867,990 and 13,231,225 shares in 2018 and 2017, respectively             | 65,472                | 54,925               |
| Additional paid-in capital  | 250,484               | 163,603              |
| Retained earnings   | 126,955               | 104,683              |
| Deferred compensation   | 2,553                 | 3,540                |
| Accumulated other comprehensive loss  | (12,173 )             | (2,304 )             |

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|  |              |              |   |
|--|--------------|--------------|---|
| Less treasury stock at cost, 573,065 shares in 2018 and 570,477 shares in 2017 | (16,458      | ) (16,483    | ) |
| Total stockholders' equity   | 416,833      | 307,964      |   |
| Total liabilities and stockholders' equity                                     | \$ 3,355,477 | \$ 2,841,539 |   |

See accompanying notes to unaudited condensed consolidated financial statements.

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First Mid-Illinois Bancshares, Inc.  
Condensed Consolidated Statements of Income (unaudited)

| (In thousands, except per share data)                      | Three months<br>ended September<br>30,<br>2018 |          | Nine months<br>ended September<br>30,<br>2018 |          |
|--|--|----------|---|----------|
|  | 2017   | 2018     | 2017  | 2018     |
| Interest income:   |  |          |   |          |
| Interest and fees on loans                                 | \$28,850                                       | \$20,385 | \$75,219                                      | \$61,337 |
| Interest on investment securities                          | 4,511  | 4,179    | 13,271  | 12,585   |
| Interest on certificates of deposit investments            | 13   | 9        | 34  | 41       |
| Interest on federal funds sold                             | 2  | 1        | 5   | 62       |
| Interest on deposits with other financial institutions     | 112  | 40       | 248   | 217      |
| Total interest income                                      | 33,488   | 24,614   | 88,777  | 74,242   |
| Interest expense:  |  |          |   |          |
| Interest on deposits                                       | 2,217  | 1,028    | 5,149   | 2,840    |
| Interest on securities sold under agreements to repurchase | 72   | 51       | 196   | 137      |
| Interest on FHLB borrowings                                | 559  | 283      | 1,309   | 602      |
| Interest on other borrowings                               | 148  | 143      | 374   | 385      |
| Interest on subordinated debentures                        | 405  | 236      | 1,013   | 680      |
| Total interest expense                                     | 3,401  | 1,741    | 8,041   | 4,644    |
| Net interest income  | 30,087   | 22,873   | 80,736  | 69,598   |
| Provision for loan losses                                  | 2,551  | 1,489    | 5,483   | 5,051    |
| Net interest income after provision for loan losses        | 27,536   | 21,384   | 75,253  | 64,547   |
| Other income:  |  |          |   |          |
| Trust revenues   | 919  | 925      | 2,934   | 2,696    |
| Brokerage commissions                                      | 660  | 536      | 1,986   | 1,550    |
| Insurance commissions                                      | 877  | 670      | 3,202   | 3,148    |
| Service charges  | 2,009  | 1,758    | 5,447   | 5,160    |
| Securities gains, net                                      | —  | 254      | 901   | 589      |
| Mortgage banking revenue, net                              | 368  | 347      | 939   | 875      |
| ATM / debit card revenue                                   | 1,979  | 1,595    | 5,443   | 4,828    |
| Bank owned life insurance                                  | 342  | 792      | 933   | 1,355    |
| Other  | 765  | 784      | 1,982   | 2,925    |
| Total other income   | 7,919  | 7,661    | 23,767  | 23,126   |
| Other expense:   |  |          |   |          |
| Salaries and employee benefits                             | 11,600   | 9,648    | 32,851  | 29,685   |
| Net occupancy and equipment expense                        | 3,530  | 3,129    | 10,308  | 9,378    |
| Net other real estate owned expense (income)               | (61  | ) 385    | 22  | 530      |
| FDIC insurance   | 174  | 210      | 740   | 679      |
| Amortization of intangible assets                          | 838  | 545      | 2,059   | 1,651    |
| Stationery and supplies                                    | 328  | 168      | 725   | 539      |
| Legal and professional                                     | 1,071  | 871      | 3,925   | 2,596    |
| Marketing and donations                                    | 468  | 338      | 1,253   | 909      |
| Other  | 6,542  | 2,618    | 11,777  | 9,102    |
| Total other expense  | 24,490   | 17,912   | 63,660  | 55,069   |
| Income before income taxes                                 | 10,965   | 11,133   | 35,360  | 32,604   |
| Income taxes   | 2,731  | 3,538    | 8,699   | 10,545   |
| Net income   | \$8,234  | \$7,595  | \$26,661                                      | \$22,059 |
| Per share data:  |  |          |   |          |

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|  |        |        |        |        |
|--|--------|--------|--------|--------|
| Basic net income per common share available to common stockholders   | \$0.54 | \$0.61 | \$1.91 | \$1.76 |
| Diluted net income per common share available to common stockholders | \$0.54 | \$0.61 | \$1.90 | \$1.76 |
| Cash dividends declared per common share                             | \$—    | \$—    | \$0.34 | \$0.32 |

See accompanying notes to unaudited condensed consolidated financial statements.

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First Mid-Illinois Bancshares, Inc.

Condensed Consolidated Statements of Comprehensive Income (unaudited)

| (in thousands)  | Three months<br>ended September<br>30, |         | Nine months ended<br>September 30, |          |
|---|--|---------|------------------------------------|----------|
|   | 2018                                   | 2017    | 2018                               | 2017     |
| Net income  | \$8,234                                | \$7,595 | \$26,661                           | \$22,059 |
| Other Comprehensive Income (Loss)   |  |         |                                    |          |
| Unrealized gains (losses) on available-for-sale securities, net of taxes of \$1,191 and \$327 for three months ended September 30, 2018 and 2017, respectively and \$3,796 and \$(5,154) for nine months ended September 30, 2018 and 2017, respectively.                             | (2,919 )                               | (512 )  | (9,289 )                           | 8,068    |
| Amortized holding losses on held-to-maturity securities transferred from available-for-sale, net of taxes of \$(8) and \$(11) for three months ended September 30, 2018 and 2017, respectively and \$(25) and \$(32) for nine months ended September 30, 2018 and 2017, respectively. | 20                                     | 16      | 60                                 | 51       |
| Less: reclassification adjustment for realized gains included in net income, net of taxes of \$0 and \$99 for three months ended September 30, 2018 and 2017, respectively and \$261 and \$230 for nine months ended September 30, 2018 and 2017, respectively.                       | —                                      | (155 )  | (640 )                             | (359 )   |
| Other comprehensive income (loss), net of taxes   | (2,899 )                               | (651 )  | (9,869 )                           | 7,760    |
| Comprehensive income  | \$5,335                                | \$6,944 | \$16,792                           | \$29,819 |

See accompanying notes to unaudited condensed consolidated financial statements.

First Mid-Illinois Bancshares, Inc.

Condensed Consolidated Statements of Cash Flows (unaudited)

Nine months ended  
September 30,

(In thousands)

2018 2017

Cash flows from operating activities:

Net income

\$26,661 \$22,059

Adjustments to reconcile net income to net cash provided by operating activities:

Provision for loan losses

5,483 5,051

Depreciation, amortization and accretion, net

5,431 6,241

Change in cash surrender value of bank owned life insurance

(933 ) (844 )

Stock-based compensation expense

242 300

Gains on investment securities, net

(901 ) (589 )

(Gain) loss on sales of repossessed assets, net

(62 ) 349

Loss on write down of premises and equipment

26 337

Gains on sale of loans held for sale, net

(796 ) (809 )

Decrease in accrued interest receivable

(1,767 ) (323 )

Increase in accrued interest payable

541 38

Origination of loans held for sale

(48,214 ) (45,076)