First Defiance Financial Corp.

First Quarter 2018 Earnings Conference Call

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CORPORATE PARTICIPANTS

Don Hileman, *President and CEO*

Kevin Thompson, *Vice President and Chief Financial Officer*

Tera Murphy, *Vice President*

PRESENTATION

Operator
Good morning and welcome to the First Defiance First Quarter 2018 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then one on your telephone keypad. To withdraw your question, please press star, then two. Please note that this event is being recorded.

I would now like to turn the conference over to Tera Murphy, with First Defiance Financial Corp. Please go ahead.

Tera Murphy
Thank you. Good morning, everyone, and thank you for joining us for today's 2018 First Quarter Earnings Conference Call. This call is also being webcast, and the audio replay will be available at the First Defiance website at fdef.com.

Providing commentary this morning will be Don Hileman, President and CEO of First Defiance, and Kevin Thompson, Executive Vice President and Chief Financial Officer. Following their prepared comments on the company's strategy and performance, they will be available to take your questions.

Before we begin, I'd like to remind you that during the conference call today, including during the question-and-answer period, you may hear forward-looking statements related to future financial results and business operations for First Defiance Financial Corp. Actual results may differ materially from current management forecasts and projections as a result of factors over which the company has no control. Information on these risk factors and additional information on forward-looking statements are included in the news release and in the company's reports on file with the Securities and Exchange Commission.

And now, I'll turn the call over to Mr. Hileman for his comments.

Don Hileman
Thank you, Tera. Good morning, and welcome to the First Defiance Financial Corporation's First Quarter Conference Call. Joining me on the call this morning to give more detail on the financial performance for the quarter, is our CFO, Kevin Thompson.

Last night we issued our 2018 first quarter earnings release and now would like to discuss the release and give you a look into the remainder of 2018. At the conclusion of our remarks, we will answer any questions you might have.

We're very pleased with the continued movement toward achieving our strategic goals. Net income for the first quarter of '18 on a GAAP basis, was $11.7 million, or $1.15 per diluted common share, compared to $5.1 million, or 54 cents per diluted common share, in the first quarter of 2017. As a reminder, merger-related costs were 27 cents per diluted share in the first quarter of 2017.

Our first quarter 2018 results reflect strong profitability, with an ROA of 1.6 percent compared to .79 percent in the first quarter of '17, again impacted by merger charges, and 1.26 in the fourth quarter of 2017. Net charge-offs turned to recovery in the first quarter of '18, reflecting a net recovery of $1.7 million compared to a net charge-off of $190,000 in the first quarter of ’17 and net recoveries of $28,000 in the fourth quarter of ’17. Our overall core performance this quarter remained strong and starts the year off on a positive note. We experienced year-over-year and linked quarter annualized quarter net loan growth of 5.4 percent and 1.6 percent, respectively.

While acknowledging the less-than-targeted growth rate, the quarter was impacted by several significant payoffs; however, we expect the growth rate to increase in the future as the first quarter loan growth trends seem to be seasonally weaker. Our ability to grow our loan portfolio remains a key piece of our strategic plan. The lending environment is very competitive, with rates and structure pressures relating to terms and conditions in the uncertain economic environment.

We did not see any significant movement in local market rates after the recent Fed hike. Despite this environment, it is encouraging for us to see contributions from our entire footprint and to end the first quarter with the pipeline up from year-end. We believe that we can still achieve our annual goal of upper-single digit loan growth.

Total deposits were up 5 percent year over year and 8.9 percent on a linked quarter annualized basis. We are also very pleased with our margin improvement this quarter, with the first quarter over the first quarter of ’17 and on a linked quarter basis.

Credit quality metrics showed overall improvement this quarter from the fourth quarter of ’17. Overall, we expect to see stable-to-improving asset quality trends across the board in the near term. We will continue to focus on asset quality trough reducing the non-performing and classified asset levels in the future, leading to improvements in our non-performing asset ratios.

In regards to our capital management plans, we are also pleased to announce a second — a 2018 second quarter dividend of 30 cents per share, representing a 20 percent increase in the annual dividend yield of approximately 2.09 percent.

I will now ask Kevin to provide additional financial details for the quarter before I conclude with an overview. Kevin?

Kevin Thompson
Thank you, Don. Good morning, everybody. As Don stated, net income for the first quarter was $11.7 million, or $1.15 per diluted share, significantly up from the prior year results of $5.1 million, or 54 cents in the first quarter of 2017. The year-over-year comparison is a bit noisy, mostly due to the large loan loss recoveries in the first quarter this year and the completion of the Commercial Savings Bank, or CSB, acquisition and merger expenses in the first quarter last year. But even when you clear away the noise, the progress in our performance is quite evident.

First, I’m going to run through some of the details in our financials, and then I’m going to provide a summary at the end of my remarks. Okay, starting with the balance sheet, after very strong growth in the fourth quarter of last year, first quarter 2018 growth was lower, reflecting expected seasonality but also a higher level of loan pay-offs, which constrained net growth on the loan side. In total, loans had net growth of about $10 million in the first quarter, after growing $73 million last quarter. Significantly, our new loan originations in the first quarter of $137 million were only $9 million less than last quarter, indicating our loan production remains strong. While we do anticipate some significant additional pay-offs here in the second quarter, we look for our net growth to pick up, particularly over the second half of the year. As for deposits, we had an increase of about $54 million this past quarter, after an increase of $77 million last quarter. So our momentum remains strong on the deposit side, supporting our opportunity for continued growth in our balance sheet.

Overall, we are very pleased with our balance sheet, our low-cost deposit growth, strong earning asset mix, with perhaps a little extra room for more loan growth, all supporting our profitable margin, which leads me to the income statement.

Our net interest income was $25.7 million for the first quarter of 2018, up from $25.4 million in the linked quarter, and up $4 million, or 18.7 percent, from the $21.6 million in the first quarter last year. The increase over the prior year first quarter was primarily driven by growth in average balances, which is enlarged a bit since the prior year quarter only included five weeks of the CSB balances acquired February 2017, but it also reflects margin expansion from a year ago, as the loan portfolio yield has increased with the rate hikes over the past year. Deposit funding costs have been less impacted.

Our margin this quarter was 395, up 7 basis points from last quarter, and up 14 basis from 3.81 percent in the first quarter last year. On a linked quarter basis, our yield on earning assets was up 8 basis points, as our loan portfolio yield rose to 4.65 percent. Our cost of interest bearing liabilities was up 3 basis points on the linked quarter basis, mostly due to marginal rate impacts.

Our earning asset mix and funding mix remain strong, and with our balanced exposure to interest rate changes, we believe that our margin will continue to perform well, considering our growth expectations coupled with the anticipated Fed actions.

Total non-interest income was $10.7 million in the first quarter of 2018, up from $9.9 million in the linked quarter and up from $10.5 million in the first quarter of 2017. Recall that the first quarter 2017 included $1.5 million enhancement gain on a BOLI purchase. In addition, the first quarter is generally when we receive our contingent insurance commissions, which were good this year, totaling $1 million, however down from a very strong $1.2 million a year ago. So excluding the non-core and seasonal items from each year, non-interest income was up year over year about $1.9 million, or 23.6 percent, mainly due to growth in all of our businesses, further bolstered by our 2017 acquisitions.

Regarding mortgage banking, revenues for the first quarter of 2018 were $1.7 million, up $4,000 from both the linked quarter and first quarter 2017. The first quarter mortgage banking originations were $50.7 million, seasonally down compared to $63.8 million last quarter but up from $48.9 million in the first quarter 2017. Gain on sale income was $1.1 million in the first quarter of 2018 and essentially flat compared to the linked quarter and first quarter last year. In addition, the first quarter included a positive valuation adjustment to mortgage servicing rights of $37,000 compared to positive adjustments of $69,000 last quarter and $33,000 in the first quarter of 2017.

At March 31, 2018, First Defiance had $1.4 billion in loans serviced for others. The mortgage servicing rights associated with those loans had a fair value of $9.8 million, or 76 basis points of the outstanding loan balances serviced, and total impairment reserves, which are available for recapture in future periods, still totaled $396,000 at quarter end.

As for non-interest expense, first quarter expenses totaled $23.3 million, up from $21.1 million in the linked quarter and 23.1 million for the first quarter of 2017. The first quarter 2018 included $544,000 in other expenses for OREO write-downs, while the first quarter 2017 included expenses attributable to the merger and conversion of CSB, which totaled $3.6 million, primarily in compensation and benefits expense and other expenses. Excluding these non-recurring items, non-interest expenses would be up $3.2 million, or 16.2 percent, mostly due to the operating expenses for the now completed 2017 acquisitions. In addition, the first quarter 2018 reflected costs for non-executive employee bonuses of approximately $300,000. We indicated last quarter that we would be reinvesting some of the expected benefits of tax reform. This represents our initial expenditure, and we expect to be making additional investments going forward that should expect — that should impact expenses at about the same level as this quarter.

Regarding asset quality, obviously, the resolution through payoff of one of the large loans that we downgraded last year had significant and visible impact on our asset quality numbers this quarter. The payoff both reduced the non-performing loans and generated a significant recovery. All in, loan loss recoveries for the first quarter totaled $2 million, and, after charge-offs of $316,000, net loan recoveries for the quarter were $1.7 million. This contributed to a credit provision on the income statement of $1.1 million in the first quarter of 2018. Last year's first quarter reflected $190,000 of net loan charge-offs and a provision expense of $55,000.

With the recoveries this quarter offsetting the large loan loss taken in the second quarter of last year, our net charge-offs to loan ratio for the last 12 months is now less than 2 basis points. Our allowance for loan loss at March 31, 2018, was $27.3 million, up $25.7 million from March 31st last year, with the change primarily driven by the growth in loans, and the allowance to total loans ratio at March 31, 2018, was 1.16 percent compared to 1.14 percent last quarter and 1.15 percent a year ago. In addition, the remaining CSB-acquired loans are currently carried at a discount of $3.7 million, or 1.9 percent of balances.

As for the non-performing balances, non-performing loans declined this quarter to $27.9 million, from $30.7 million last quarter end, but we're still up from $15.1 million at March 31, 2017. The year-to-year change is still primarily due to one of the two large credits downgraded in the second quarter last year, which we are pleased to say continues to show the performance improvement that we expected.

Our OREO balance also decreased slightly this quarter to $1.4 million, from $1.5 million last quarter, but was up from $705,000 in the first quarter of last year, and, as noted earlier, we did take some OREO write-downs of $544,000 in the first quarter. Overall, non-performing assets ended the quarter at $29.4 million, or 0.97 percent of total assets, still up from $15.8 million, or 0.54 percent of total assets at March 31, 2017, but back down below 1 percent, which is where we want to be.

Our accruing troubled-debt restructured loans this quarter were $13.7 million, down slightly from $13.8 million last quarter versus $9.8 million a year ago. With the change in the non-performing assets at quarter end, the allowance coverage of non-performing assets was 93 percent compared to 83 percent at December 31, 2017, and 163 percent a year ago. Needless to say, we're pleased with what transpired in the quarter and remain confident in our overall portfolio strength and asset quality as we continue to pursue our growth strategies.

A few comments on income tax expense. Comparing year to year, the first quarter 2018 reflects the benefits of the new lower corporate tax rate of 21 percent compared to the higher rate in the first quarter last year. In addition to the higher tax rate last year, taxes also included a $1.7 million expense in connection with the surrender of a BOLI policy. Again, this expense nearly offset the $1.5 million enhancement gain on the new BOLI purchase. Our expected effective tax rate going forward is still about 18½ percent.

Looking at our capital position, total period-end stockholders' equity finished the quarter at $379.2 million, up from $354.2 million at March 31, 2017. Our capital position remains strong, with quarter-end shareholders' equity to assets of 12.56 percent, up from 11.99 percent last year. The bank's total risk-based capital ratio is approximately 12.7 percent at quarter end, March 31, 2018. Our healthy capital position continues to support our strategies for growth and shareholder value enhancement.

Now, I'd like to provide an overview and recap of our EPS from our perspective. The $1.15 per share earned in the current year quarter includes a credit provision of $1.1 million, which resulted from recoveries in the quarter of $2 million. If not for the recoveries, we would have had a provision expense of about $900,000, so the benefit from the recoveries to earnings was about 15 cents per diluted share at the new marginal tax rate of 21 percent. In addition, we had some OREO write-downs totaling $544,000, which had an after-tax per share cost of about 4 cents per diluted share. So adjusting for these two items, our first quarter results would be about $1.04 per diluted share.

Looking at last year's first quarter, these results included 27 cents per diluted share of impact of merger and conversion expenses and 2 cents per diluted share reduction resulting from the repositioning in our bank-owned life insurance portfolio. Now, adjusting for those items in the first quarter last year, EPS would be 83 cents per diluted share. So comparing the $1.04 this year to the 83 cents last year, the difference actually rounds down to about 20 cents per diluted share or a 24.5 percent increase. If you break these results down further, you find that the adjusted pre-tax, pre-provision EPS would be up about 16½ cents, or 14 percent. The adjusted provision actually reduces earnings about 8 cents, and the change in taxes increased earnings about 12 cents, again, all totaling a 20 cent, about 25 percent, increase.

So, in summary, we're off to a very good start to 2018. Our balance sheet is solid, our margin is performing well, our operating profitability is strong, our asset quality is improving, and our outlook for the year remains very positive.

That completes my financial review. I will now turn the call back over to Don.

Don Hileman

Thank you, Kevin. I'm very pleased with the results this quarter and the core earnings improvement. We continue to focus on several key areas that we believe are very important. As noted, we want to include core balance sheet growth with a focus on loan growth and deposit growth, overall revenue growth, expense control, and improved asset quality.

We will continue to look to make progress in these areas throughout 2018. We have restructured key leadership positions to allow for more direct responsibility for growth in the metro market areas of the company, which include Fort Wayne, Indiana; Toledo; and Columbus, Ohio.

All of our metro markets did see loan growth for the first quarter, and we anticipate a rise in loan demand over the course of the year. Overall loan growth was contained by contraction in our legacy markets this quarter. While the lending environment remains very competitive, we feel we can accomplish loan growth without making significant concessions in rates and other terms through a strong process of relationship building and quality client-focused service. We are pleased that we have maintained a positive trend in the margin as well as the growth in loan yield. We understand that it will be challenging to drive growth in loans and maintain yield management and understand some tradeoffs will probably be necessary as we move through the year, and we are heavily focused on relationship management pricing.

Our delivery and service model is effective in helping achieve this balance. Improving asset quality was more challenging than expected, but we feel comfortable with where we ended the quarter with NPAs at .97 percent of assets. We will continue to strive to lower this ratio throughout 2018. We are concentrating on deposit growth initiatives to overcome challenges in tracking core deposits at the correlated pace with loan growth.

As I mentioned last quarter, we expanded our physical branch presence in Sylvania, Ohio as part of the Toledo metro market, and we plan to open our downtown Fort Wayne, Indiana office around the first of May. Throughout 2018, we will continually look to enhance customer experience through enhancements of our digital channels. Our customers' expectations, especially pertaining to these digital delivery methods, continues to rise, and we believe it is important to strengthen our technology capabilities to exceed their expectations, while providing a live, interactive experience for clients in our offices.

We are encouraged by the recent performance and look to constantly drive our performance through initiatives that will help us obtain the goal of being a consistently high performing community bank. We feel that the performance of the organization reflects our focus on shareholder value and, at the same time, are committed to be a strong community partner in the areas that we serve. We remain dedicated to all of our customers and shareholders, and we appreciate the trust you have placed in us as we build a stronger First Defiance.

Thank you for your interest in First Defiance Financial Corp, and we thank you for joining us this morning. We will now be glad to take your questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and answer-session. To ask a question, you may press star, then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two. At this time, we will pause momentarily to assemble our roster.

Our first question comes from Nick Cucharale from Sandler O'Neill.

Nick Cucharale
Good morning, gentlemen, how are you doing?

Don Hileman
Good morning, Nick.

Kevin Thompson
Pretty good, Nick.

Nick Cucharale
First, some nice margin expansion this quarter, and I heard you expect the margin to continue to perform well, but I was hoping you could expand on your outlook for the NIM and if you were seeing any funding pressure on the horizon.

Don Hileman

We've been very fortunate and experienced limited pressure on the deposit side. I mean, that's really where a lot of the benefits of the margin is coming from, is the, limited change in our funding costs compared to what we're able to achieve on the asset side.

As rates continue to rise, we continue — and our outlook is always to be very cautious on that end and expect that the pressure has got to increase. The question is how much? And that's a little tougher to tell, but I think given where we're at, we still expect our margin to be very strong as we go through the remainder of the year and, be significant —still a very significant contribution to our profitability overall.

Nick Cucharale
Okay, great. And then I just wanted to clarify your commentary on the expenses. The last quarter we had talked about some of the plans to reinvest some of the savings from tax reform back into the business, and with some of that coming through this quarter with the bonuses, is it fair to say you expect to reinvest another 700k back into the business and for that to be ratably? Is that how — am I thinking about things correctly?

Kevin Thompson
Yes.

Don Hileman
Yes, and maybe a little more.

Kevin Thompson
Yes.

Don Hileman
Again, if it was roughly $300,000 a quarter over the remainder of the year, I mean, that's —

Kevin Thompson
Right. I think we said a million — between a million and $1.2 million.

Don Hileman
— over the course of the year.

Kevin Thompson
We expect to reinvest.

Nick Cucharale
Okay, thanks. And then, lastly, I just wanted to get some more detail on the trust line. I know you changed the accounting method in the fourth quarter, which makes the year-over-year comparables a little bit difficult, but is your expectation for trust income to remain around current levels? Is that a good go-forward rate?

Don Hileman
Well, we like to think it will continue to grow, but we're not going backwards, if that's what you mean.

Kevin Thompson
Yeah. No, I think that would be a good — a consistent approach to it, that it should be equal to or better than where we are in this quarter.

Nick Cucharale
Terrific. Thanks for taking my questions.

Don Hileman
Sure.

Kevin Thompson
Thanks a lot.

Operator
Our next question comes from Damon DelMonte with KBW.

Damon DelMonte
Hey, good morning, guys, how's it going today?

Don Hileman
Good.

Ke**vin Thompson**
Good morning.

Damon DelMonte
Good. My first question is just dealing with the margin. Kevin, could you just drill a little bit deeper on that reported 395 and outline what the core margin was, you know, x accretible yield?

Kevin Thompson
The contribution from the acquisition in terms of marks on our margin this past quarter was pretty nominal. I want to think it — if I remember the number, it was like $60,000. So our core —

Damon DelMonte
Okay.

Kevin Thompson
— core margin, you know, is pretty much there. We did have some interest recoveries, but even they — let me think — about $160,000, so that helped some but nothing, no significant benefits to the margin other than our core balance sheet.

Damon DelMonte
Okay. So the quarter-over-quarter increase, then, was truly driven by an expansion on the loan yield side and I'm assuming that's —

Kevin Thompson
Correct.

Damon DelMonte
— driven by the Fed hike we got in March, or is that also just better pricing you're seeing on different loan categories?

Kevin Thompson

It's a cumulative thing, okay? As rates have gone up and loans are renewing and repricing and new business I think there's a cumulative build-up that we are experiencing in our portfolio, and that's been a net pick-up, needless to say. And so that's been a positive — on the deposit side, like I said, we've been able to contain our pricing changes effectively so that the benefits from the loan pricing continue to expand our margin.

Damon DelMonte
Gotcha, okay. And then what are you expecting for additional rate hikes this — the remainder of the year, one or two more increases?

Kevin Thompson
I think we've got two more expected, but, again, one later in the year, which probably would have less effect on the current year's results.

Damon DelMonte
Gotcha, okay. That's helpful. Thank you. And then I think you guys alluded to seeing additional expected payoffs in the second quarter and then loan growth kind of ramping up in the back half of 2018. Are you looking at something like a low-single digit growth rate for the second quarter and then kind of double digit growth in the back half of the year to kind of net you out to that upper-single digit level?

Kevin Thompson
I think that's a fair representation. We're going to see it — we expect pick-up, but, more marginally in the second quarter than we expect in the second half of the year.

Don Hileman
Right, and we'll give you a little color on the payoffs. We've got a couple large debts that have sold their businesses, and it's not — and, actually, they're still competitors, so it's more of a business decision, and those are a couple substantial balances that we know of.

Kevin Thompson
Right. The business environment, it's been pretty active in our markets —

Don Hileman
Yeah.

Kevin Thompson
— which is a good thing overall.

Damon DelMonte
Okay. All right. And then I guess, just lastly, could you just give a little bit of an update on your expansion efforts in the Columbus, Ohio marketplace?

Don Hileman
Yeah, we still continue to grow in there, primarily driven by— leading with loans. We do have a full-service office, but it's a little slower to grow the deposits in there, but that still is a focus. I would see consistent growth in Columbus and stronger loan growth. The metro markets are where we did have the growth this quarter. We were contracting in our legacy markets, their support allowed for overall loan growth for the company in the first quarter.

Damon DelMonte

I see, okay. And then do you have an update as to what the outstandings are in the Columbus market?

Kevin Thompson
I believe it's like $190 million right now. It was the leading — I know it was the highest growth market for us this past quarter, which I believe was up $24 million of that.

Damon DelMonte
All right. Great. That's all that I had. Thank you very much.

Don Hileman
All right. Thanks, Damon.

Operator
The next question comes from Christopher Marinac from FIG Partners.

Christopher Marinac
Thanks. Good morning, guys. I just want to follow up on the loan growth in the non-legacy or, I should say, newer markets. Would that be a primarily coming on the commercial real estate side, or would you have a blend of C9 and other related loans within the portfolio?

Don Hileman
It would be primarily waivers on the CRE portfolio going forward here right now. That's a migration we're focused on to try to have a little bit more blend going forward, but most of that growth in the first quarter was in CRE.

Christopher Marinac
Okay. And then what's the outlook for potential recoveries of past charge-offs? Don, is that something that could be out there, or would this chunk here be close to the end of them?

Don Hileman
I think there should be some little at a lower level. There's still some opportunity there, but this was the biggest one.

Kevin Thompson
Yeah, nothing like [inaudible] —

Don Hileman
Nothing close to this magnitude.

Don Hileman
Yeah, okay. And that was all related, basically, to one — the large credit that we —

Kevin Thompson
Wrote down last year.

Don Hileman
— wrote down in the second quarter of last year, so it kind of just came back through.

Christopher Marinac

Gotcha. Gotcha. And then if you looked out a couple quarters, would you envision the loan-to-deposit ratio changing much? I know it came down this quarter with the deposit growth just curious if that would, bump up the elevated levels, or do you want to manage it here in the sort of low to mid 90s?

Don Hileman
Our expectation has been that it probably will float up a little bit, not hitting 100 percent necessarily but probably more in the upper 90s over time, and that's our expectation, but we've, again, been very fortunate with our deposit growth. And if our deposit growth continues very strong and keeps that ratio down a little bit, I think I'd be okay with that.

Kevin Thompson
Yes.

Christopher Marinac
Sure. Gotcha. Okay. Very good, guys. Thank you very much.

Kevin Thompson
Thank you.

Don Hileman
Operator, I think we have another question?

Operator
Yes. Again, our next question comes from Daniel Cardenas with Raymond James

Daniel Cardenas
Good.

Kevin Thompson
Hi, Dan.

Don Hileman
Hi, Dan.

Daniel Cardenas
Just a couple of quick questions there for you guys. In terms of charge-offs, I mean, you guys indicated in your comments, Kevin, extremely low. How are you guys thinking about charge-off levels on a go-forward basis? Do we start to see them return to maybe a more normal level, or is it possible that we kind of still keep them in sub-10 basis points on a go-forward basis, at least through the remainder of '18?

Kevin Thompson

Yeah, we're still thinking sub-10 basis points. Our planning generally is around 5 basis points based on this near-term horizon still.

Daniel Cardenas
Great, and then maybe just in terms of deposit growth outlook, do you think it can be consistent with the loan growth objectives that you stated, that — kind of the higher-single digit loan growth — or could you actually even perform better than that?

Don Hileman
Yeah, I'm not sure I would expect, as we talked about it, the loan growth ramped up to a double digit level. I'm not sure I would expect the deposit growth to quite get to that level. I think if we can sustain the pace we're on, I think we'll feel pretty good about our results for the year, and that's kind of where, our thinking is.

Kevin Thompson
Yeah.

Daniel Cardenas
All right, good. And then maybe just a quick update on M&A, what you guys are seeing. Is it a quiet environment right now? Are there are a lot of discussions, and what do you feel your prospects for announcing a deal within the next 12 months look like?

Kevin Thompson
It was a little quieter here over the last three months, in activities. Our expectation is that it will be a little bit more noisy, if you will. We still feel good about our prospects. We think we're well positioned. As our value and our stock is at these levels, we have become more attractive as an acquirer, so we're still pretty optimistic about our opportunity to do something in the near term, Dan.

Daniel Cardenas
Is the appetite kind of more for the metro markets, or is that still up for debate?

Don Hileman
That's still up for debate. I think, clearly, we'd like to look at all opportunities, where it might fit best with us and our franchise and how we operate to round out potential. We would definitely be looking at, probably the same thing everybody is going to be looking at, the loan-to-deposit mix, the funding sources that we have available, and then acquisition and what we'd look like on a combined basis, and the loan growth opportunities and capabilities. Those things would be important, as I'm sure they're important to everybody.

Daniel Cardenas
Okay, great. All right. That's all I've got for right now. Thanks, guys, good quarter.

Multiple Speakers
All right. Thank you very much.

Operator
Again, if you have a question, please press star, then one. Okay, this concludes our question-and-answer session. I would like to turn the conference back over to Tera Murphy for any closing remarks.

CONCLUSION

Tera Murphy
Thank you for joining us today as we discussed our quarterly results. We appreciate your time and interest in First Defiance Financial Corp. Have a great day.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.