

1ST SOURCE CORP
Form 10-Q
April 23, 2015
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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 March 31, 2015

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 0-6233

(Exact name of registrant as specified in its charter)

INDIANA

35-1068133

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

100 North Michigan Street

South Bend, IN

46601

(Address of principal executive offices)

(Zip Code)

(574) 235-2000

(Registrant's telephone number, including area code)

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 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 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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer

Accelerated filer

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

Number of shares of common stock outstanding as of April 17, 2015 — 23,853,087 shares

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1st SOURCE CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited - Dollars in thousands)

	March 31, 2015	December 31, 2014
ASSETS		
Cash and due from banks	\$58,196	\$64,834
Federal funds sold and interest bearing deposits with other banks	11,068	1,356
Investment securities available-for-sale (amortized cost of \$778,597 and \$776,057 at March 31, 2015 and December 31, 2014, respectively)	796,604	791,118
Other investments	20,561	20,801
Trading account securities	208	205
Mortgages held for sale	22,820	13,604
Loans and leases, net of unearned discount:		
Commercial and agricultural	712,293	710,758
Auto and light truck	402,389	397,902
Medium and heavy duty truck	240,187	247,153
Aircraft financing	696,943	727,665
Construction equipment financing	439,530	399,940
Commercial real estate	615,555	616,587
Residential real estate	443,375	445,759
Consumer	150,860	142,810
Total loans and leases	3,701,132	3,688,574
Reserve for loan and lease losses	(85,098)	(85,068)
Net loans and leases	3,616,034	3,603,506
Equipment owned under operating leases, net	82,640	74,143
Net premises and equipment	49,701	50,328
Goodwill and intangible assets	85,158	85,371
Accrued income and other assets	119,394	124,692
Total assets	\$4,862,384	\$4,829,958
LIABILITIES		
Deposits:		
Noninterest bearing	\$835,403	\$796,241
Interest bearing	3,035,057	3,006,619
Total deposits	3,870,460	3,802,860
Short-term borrowings:		
Federal funds purchased and securities sold under agreements to repurchase	123,075	138,843
Other short-term borrowings	77,071	106,979
Total short-term borrowings	200,146	245,822
Long-term debt and mandatorily redeemable securities	57,515	56,232
Subordinated notes	58,764	58,764
Accrued expenses and other liabilities	50,994	51,807
Total liabilities	4,237,879	4,215,485
SHAREHOLDERS' EQUITY		

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Preferred stock; no par value		
Authorized 10,000,000 shares; none issued or outstanding	—	—
Common stock; no par value		
Authorized 40,000,000 shares; issued 25,641,887 at March 31, 2015 and December 31, 2014	346,535	346,535
Retained earnings	311,207	302,242
Cost of common stock in treasury (1,788,805 shares at March 31, 2015 and 1,779,442 shares at December 31, 2014)	(44,484) (43,711)
Accumulated other comprehensive income	11,247	9,407
Total shareholders' equity	624,505	614,473
Total liabilities and shareholders' equity	\$4,862,384	\$4,829,958

The accompanying notes are a part of the consolidated financial statements.

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1st SOURCE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited - Dollars in thousands, except per share amounts)

	Three Months Ended March 31,	
	2015	2014
Interest income:		
Loans and leases	\$ 39,604	\$ 38,914
Investment securities, taxable	3,004	3,345
Investment securities, tax-exempt	769	819
Other	255	277
Total interest income	43,632	43,355
Interest expense:		
Deposits	2,559	2,971
Short-term borrowings	103	136
Subordinated notes	1,055	1,055
Long-term debt and mandatorily redeemable securities	479	575
Total interest expense	4,196	4,737
Net interest income	39,436	38,618
Provision for loan and lease losses	357	804
Net interest income after provision for loan and lease losses	39,079	37,814
Noninterest income:		
Trust fees	4,557	4,476
Service charges on deposit accounts	2,197	2,066
Debit card income	2,399	2,232
Mortgage banking income	1,251	1,334
Insurance commissions	1,305	1,563
Equipment rental income	5,079	4,082
Gains on investment securities available-for-sale	—	963
Other income	2,963	2,682
Total noninterest income	19,751	19,398
Noninterest expense:		
Salaries and employee benefits	20,925	19,482
Net occupancy expense	2,461	2,437
Furniture and equipment expense	4,336	4,237
Depreciation - leased equipment	4,088	3,249
Professional fees	870	1,128
Supplies and communication	1,406	1,392
FDIC and other insurance	849	864
Business development and marketing expense	1,049	1,684
Loan and lease collection and repossession expense	363	(494)
Other expense	1,714	1,994
Total noninterest expense	38,061	35,973
Income before income taxes	20,769	21,239

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Income tax expense	7,258	7,607
Net income	\$13,511	\$13,632
Per common share:		
Basic net income per common share	\$0.56	\$0.55
Diluted net income per common share	\$0.56	\$0.55
Dividends	\$0.18	\$0.17
Basic weighted average common shares outstanding	23,871,157	24,317,446
Diluted weighted average common shares outstanding	23,871,157	24,317,446
The accompanying notes are a part of the consolidated financial statements.		

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1st SOURCE CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited - Dollars in thousands)

	Three Months Ended March 31,	
	2015	2014
Net income	\$ 13,511	\$ 13,632
Other comprehensive income (loss):		
Change in unrealized appreciation (depreciation) of available-for-sale securities	2,946	4,016
Reclassification adjustment for realized (gains) losses included in net income	—	(963)
Income tax effect	(1,106)	(1,146)
Other comprehensive income (loss), net of tax	1,840	1,907
Comprehensive income	\$ 15,351	\$ 15,539

The accompanying notes are a part of the consolidated financial statements.

1st SOURCE CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited - Dollars in thousands, except per share amounts)

	Preferred Stock	Common Stock	Retained Earnings	Cost of Common Stock in Treasury	Accumulated Other Comprehensive Income (Loss), Net	Total
Balance at January 1, 2014	\$—	\$346,535	\$261,626	\$(29,364)	\$ 6,581	\$585,378
Net income	—	—	13,632	—	—	13,632
Other comprehensive income	—	—	—	—	1,907	1,907
Issuance of 61,978 common shares under stock based compensation awards, including related tax effects	—	—	(243)	1,480	—	1,237
Cost of 48,607 shares of common stock acquired for treasury	—	—	—	(1,401)	—	(1,401)
Common stock dividend (\$0.17 per share)	—	—	(4,167)	—	—	(4,167)
Balance at March 31, 2014	\$—	\$346,535	\$270,848	\$(29,285)	\$ 8,488	\$596,586