

1ST SOURCE CORP  
Form 10-Q  
October 19, 2017  
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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 September 30, 2017

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, 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

(Do not check if a smaller reporting company)

Smaller reporting company

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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

Number of shares of common stock outstanding as of October 13, 2017 — 25,936,130 shares

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

	September 30, 2017	December 31, 2016
<b>ASSETS</b>		
Cash and due from banks	\$ 64,636	\$ 58,578
Federal funds sold and interest bearing deposits with other banks	34,788	49,726
Investment securities available-for-sale	893,973	850,467
Other investments	25,953	22,458
Mortgages held for sale	11,000	15,849
Loans and leases, net of unearned discount:		
Commercial and agricultural	893,174	812,264
Auto and light truck	505,126	411,764
Medium and heavy duty truck	287,975	294,790
Aircraft	816,120	802,414
Construction equipment	541,838	495,925
Commercial real estate	740,345	719,170
Residential real estate and home equity	524,071	521,931
Consumer	128,069	129,813
Total loans and leases	4,436,718	4,188,071
Reserve for loan and lease losses	(93,372)	(88,543)
Net loans and leases	4,343,346	4,099,528
Equipment owned under operating leases, net	145,975	118,793
Net premises and equipment	53,324	56,708
Goodwill and intangible assets	83,795	84,102
Accrued income and other assets	149,945	130,059
Total assets	\$ 5,806,735	\$ 5,486,268
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing demand	\$ 1,019,106	\$ 991,256
Interest-bearing deposits:		
Interest-bearing demand	1,493,187	1,471,526
Savings	825,147	814,326
Time	1,236,272	1,056,652
Total interest-bearing deposits	3,554,606	3,342,504
Total deposits	4,573,712	4,333,760
Short-term borrowings:		
Federal funds purchased and securities sold under agreements to repurchase	148,001	162,913
Other short-term borrowings	168,764	129,030
Total short-term borrowings	316,765	291,943
Long-term debt and mandatorily redeemable securities	70,482	74,308
Subordinated notes	58,764	58,764
Accrued expenses and other liabilities	76,515	54,843
Total liabilities	5,096,238	4,813,618

## SHAREHOLDERS' EQUITY

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 28,205,674 at September 30, 2017 and December 31, 2016	436,538	436,538
Retained earnings	327,149	290,824
Cost of common stock in treasury (2,269,544 shares at September 30, 2017 and 2,329,909 shares at December 31, 2016)	(54,643	) (56,056 )
Accumulated other comprehensive income	1,453	1,344
Total shareholders' equity	710,497	672,650
Total liabilities and shareholders' equity	\$ 5,806,735	\$ 5,486,268

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		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Interest income:				
Loans and leases	\$50,429	\$ 44,965	\$143,345	\$ 131,592
Investment securities, taxable	3,048	2,384	9,932	8,504
Investment securities, tax-exempt	628	672	1,988	2,061
Other	325	279	935	879
Total interest income	54,430	48,300	156,200	143,036
Interest expense:				
Deposits	5,186	3,879	13,431	11,440
Short-term borrowings	396	150	895	430
Subordinated notes	1,022	1,055	3,132	3,165
Long-term debt and mandatorily redeemable securities	597	522	1,925	1,725
Total interest expense	7,201	5,606	19,383	16,760
Net interest income	47,229	42,694	136,817	126,276
Provision for loan and lease losses	1,620	2,067	5,358	5,091
Net interest income after provision for loan and lease losses	45,609	40,627	131,459	121,185
Noninterest income:				
Trust and wealth advisory	5,037	4,691	15,665	14,422
Service charges on deposit accounts	2,468	2,366	7,171	6,749
Debit card	2,983	2,745	8,719	8,160
Mortgage banking	1,486	1,334	3,737	3,495
Insurance commissions	1,429	1,350	4,506	4,146
Equipment rental	7,917	6,657	22,335	19,247
Gains on investment securities available-for-sale	1,007	989	2,757	790
Other	3,265	2,533	8,145	9,580
Total noninterest income	25,592	22,665	73,035	66,589
Noninterest expense:				
Salaries and employee benefits	22,016	22,136	64,073	64,681
Net occupancy	2,806	2,435	7,768	7,243
Furniture and equipment	5,363	4,898	15,264	14,499
Depreciation – leased equipment	6,565	5,570	18,541	16,115
Professional fees	1,765	1,244	4,514	3,653
Supplies and communication	1,316	1,256	3,911	4,138
FDIC and other insurance	693	647	1,889	2,437
Business development and marketing	1,199	1,263	4,352	3,268
Loan and lease collection and repossession	1,093	324	2,058	1,136
Other	1,644	1,372	4,314	4,714
Total noninterest expense	44,460	41,145	126,684	121,884
Income before income taxes	26,741	22,147	77,810	65,890
Income tax expense	9,559	7,883	27,753	23,329
Net income	\$17,182	\$ 14,264	\$50,057	\$ 42,561
Per common share:				
Basic net income per common share	\$0.66	\$ 0.55	\$1.92	\$ 1.63

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Diluted net income per common share	\$0.66	\$ 0.55	\$1.92	\$ 1.63
Cash dividends	\$0.19	\$ 0.18	\$0.56	\$ 0.54
Basic weighted average common shares outstanding	25,935,867	25,867,169	25,922,218	25,881,360
Diluted weighted average common shares outstanding	25,935,867	25,867,169	25,922,218	25,881,360

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 September 30, 2017		Nine Months Ended September 30, 2016	
Net income	\$17,182	\$14,264	\$50,057	\$42,561
Other comprehensive (loss) income:				
Change in unrealized (depreciation) appreciation of available-for-sale securities	(568 )	(905 )	2,932	5,742
Reclassification adjustment for realized (gains) losses included in net income	(1,007 )	(989 )	(2,757 )	(790 )
Income tax effect	591	711	(66 )	(1,859 )
Other comprehensive (loss) income, net of tax	(984 )	(1,183 )	109	3,093
Comprehensive income	\$16,198	\$13,081	\$50,166	\$45,654

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, 2016	\$ —	—\$436,538	\$251,812	\$(50,852 )	\$ 6,555	\$644,053
Net income	—	—	42,561	—	—	42,561
Other comprehensive income	—	—	—	—	3,093	3,093
Issuance of 109,887 common shares under stock based compensation awards, including related tax effects	—	—	(4 )	2,620	—	2,616
Cost of 270,378 shares of common stock acquired for treasury	—	—	—	(8,030 )	—	(8,030 )
Common stock cash dividend (\$0.54 per share)	—	—	(14,034 )	—	—	(14,034 )
Balance at September 30, 2016	\$ —	—\$436,538	\$280,335	\$(56,262 )	\$ 9,648	\$670,259
Balance at January 1, 2017	\$ —	—\$436,538	\$290,824	\$(56,056 )	\$ 1,344	\$672,650
Cumulative-effect adjustment	—	—	(65 )	—	—	(65 )
Balance at January 1, 2017, adjusted	—	436,538	290,759	(56,056 )	1,344	672,585
Net income	—	—	50,057	—	—	50,057
Other comprehensive income	—	—	—	—	109	109
Issuance of 61,265 common shares under stock based compensation awards	—	—	890	1,454	—	2,344
Cost of 900 shares of common stock acquired for treasury	—	—	—	(41 )	—	(41 )
Common stock cash dividend (\$0.56 per share)	—	—	(14,557 )	—	—	(14,557 )
Balance at September 30, 2017	\$ —	—\$436,538	\$327,149	\$(54,643 )	\$ 1,453	\$710,497

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





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1st SOURCE CORPORATION  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited - Dollars in thousands)

	Nine Months Ended September 30,	
	2017	2016
Operating activities:		
Net income	\$50,057	\$42,561
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	5,358	5,091
Depreciation of premises and equipment	4,309	3,897
Depreciation of equipment owned and leased to others	18,541	16,115
Stock-based compensation	2,158	2,036
Amortization of investment securities premiums and accretion of discounts, net	4,206	4,594
Amortization of mortgage servicing rights	821	1,133
Deferred income taxes	(4,230 )	82
(Gains) losses on investment securities available-for-sale	(2,757 )	(790 )
Originations of loans held for sale, net of principal collected	(75,387 )	(88,161 )
Proceeds from the sales of loans held for sale	82,572	80,474
Net gain on sale of loans held for sale	(2,336 )	(2,474 )
Net loss (gain) on sale of other real estate and repossessions	48	(154 )
Change in interest receivable	(2,863 )	(1,204 )
Change in interest payable	1,293	1,089
Change in other assets	(3,054 )	(2,896 )
Change in other liabilities	16,445	4,820
Other	3,499	(367 )
Net change in operating activities	98,680	65,846
Investing activities:		