

1ST SOURCE CORP
Form 10-Q
July 25, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013

OR

o 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

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(Exact name of registrant as specified in its charter)

INDIANA

(State or other jurisdiction of
incorporation or organization)

35-1068133

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

**100 North Michigan Street
South Bend, IN**

(Address of principal executive
offices)

46601

(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. x Yes o 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). x Yes o 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):

Large accelerated filer o

Accelerated filer x

Non-accelerated filer o

Smaller reporting company o

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No

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Number of shares of common stock outstanding as of July 12, 2013 24,375,595 shares

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

| | June 30, 2013 | December 31, 2012 |
|---|---------------------|----------------------|
| <u>ASSETS</u> | | |
| Cash and due from banks | \$ 64,850 | \$ 83,232 |
| Federal funds sold and interest bearing deposits with other banks | 3,171 | 702 |
| Investment securities available-for-sale (amortized cost of \$815,626 and \$849,139 at June 30, 2013 and December 31, 2012, respectively) | 828,312 | 880,764 |
| Other investments | 22,409 | 22,609 |
| Trading account securities | 166 | 146 |
| Mortgages held for sale | 10,849 | 10,879 |
| Loans and leases - net of unearned discount | | |
| Commercial and agricultural loans | 660,380 | 639,069 |
| Auto, light truck and environmental equipment | 510,562 | 438,147 |
| Medium and heavy duty truck | 178,594 | 172,002 |
| Aircraft financing | 677,510 | 696,479 |
| Construction equipment financing | 311,135 | 278,974 |
| Commercial real estate | 576,810 | 554,968 |
| Residential real estate | 454,983 | 438,641 |
| Consumer loans | 123,411 | 109,273 |
| Total loans and leases | 3,493,385 | 3,327,553 |
| Reserve for loan and lease losses | (85,690) | (83,311) |
| Net loans and leases | 3,407,695 | 3,244,242 |
| Equipment owned under operating leases, net | 52,856 | 52,173 |
| Net premises and equipment | 46,027 | 45,016 |
| Goodwill and intangible assets | 86,915 | 87,502 |
| Accrued income and other assets | 115,561 | 123,428 |
| Total assets | \$ 4,638,811 | \$ 4,550,693 |
| <u>LIABILITIES</u> | | |
| Deposits: | | |
| Noninterest bearing | \$ 698,389 | \$ 646,380 |
| Interest bearing | 3,002,410 | 2,977,967 |
| Total deposits | 3,700,799 | 3,624,347 |
| Short-term borrowings: | | |
| Federal funds purchased and securities sold under agreements to repurchase | 162,778 | 158,680 |
| Other short-term borrowings | 39,126 | 10,508 |
| Total short-term borrowings | 201,904 | 169,188 |
| Long-term debt and mandatorily redeemable securities | 58,216 | 71,021 |
| Subordinated notes | 58,764 | 58,764 |
| Accrued expenses and other liabilities | 51,375 | 68,718 |
| Total liabilities | 4,071,058 | 3,992,038 |
| <u>SHAREHOLDERS' EQUITY</u> | | |
| 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 June 30, 2013 and December 31, 2012 | 346,535 | 346,535 |
| Retained earnings | 241,401 | 223,715 |

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|--|---------------------|---------------------|
| Cost of common stock in treasury (1,269,292 shares at June 30, 2013 and 1,399,261 shares at December 31, 2012) | (28,021) | (31,134) |
| Accumulated other comprehensive income | 7,838 | 19,539 |
| Total shareholders' equity | 567,753 | 558,655 |
| Total liabilities and shareholders' equity | \$ 4,638,811 | \$ 4,550,693 |

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|---------------|------------------------------|---------------|
| | 2013 | 2012 | 2013 | 2012 |
| Interest income: | | | | |
| Loans and leases | \$ 40,112 | \$ 40,318 | \$ 79,282 | \$ 80,214 |
| Investment securities, taxable | 3,498 | 4,334 | 7,193 | 8,661 |
| Investment securities, tax-exempt | 760 | 848 | 1,531 | 1,700 |
| Other | 241 | 231 | 483 | 457 |
| Total interest income | 44,611 | 45,731 | 88,489 | 91,032 |
| Interest expense: | | | | |
| Deposits | 4,412 | 5,704 | 8,954 | 11,449 |
| Short-term borrowings | 45 | 47 | 77 | 100 |
| Subordinated notes | 1,055 | 1,648 | 2,110 | 3,295 |
| Long-term debt and mandatorily redeemable securities | 228 | 357 | 723 | 828 |
| Total interest expense | 5,740 | 7,756 | 11,864 | 15,672 |
| Net interest income | 38,871 | 37,975 | 76,625 | 75,360 |
| Provision for loan and lease losses | 1,293 | 2,055 | 2,050 | 4,309 |
| Net interest income after provision for loan and lease losses | 37,578 | 35,920 | 74,575 | 71,051 |
| Noninterest income: | | | | |
| Trust fees | 4,439 | 4,379 | 8,540 | 8,352 |
| Service charges on deposit accounts | 2,325 | 2,621 | 4,564 | 5,059 |
| Debit card income | 2,344 | 2,194 | 4,409 | 4,261 |
| Mortgage banking income | 1,936 | 1,502 | 3,564 | 3,444 |
| Insurance commissions | 1,393 | 1,211 | 2,839 | 2,568 |
| Equipment rental income | 4,086 | 4,666 | 8,098 | 10,016 |
| Investment securities and other investment gains | 38 | 8 | 211 | 403 |
| Other income | 3,560 | 3,209 | 6,844 | 6,210 |
| Total noninterest income | 20,121 | 19,790 | 39,069 | 40,313 |
| Noninterest expense: | | | | |
| Salaries and employee benefits | 19,176 | 20,370 | 39,112 | 40,686 |
| Net occupancy expense | 2,147 | 1,848 | 4,354 | 4,008 |
| Furniture and equipment expense | 3,909 | 3,831 | 7,808 | 7,338 |
| Depreciation - leased equipment | 3,274 | 3,803 | 6,499 | 8,114 |
| Professional fees | 1,310 | 1,449 | 2,665 | 2,847 |
| Supplies and communication | 1,499 | 1,385 | 3,035 | 2,778 |
| FDIC and other insurance | 927 | 854 | 1,805 | 1,803 |
| Business development and marketing expense | 932 | 1,050 | 1,705 | 1,917 |
| Loan and lease collection and repossession expense | 1,095 | 979 | 1,852 | 2,480 |
| Other expense | 1,475 | 1,009 | 3,459 | 2,655 |
| Total noninterest expense | 35,744 | 36,578 | 72,294 | 74,626 |

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|--|------------------|------------------|------------------|------------------|
| Income before income taxes | 21,955 | 19,132 | 41,350 | 36,738 |
| Income tax expense | 8,013 | 6,565 | 15,004 | 12,456 |
| Net income | \$ 13,942 | \$ 12,567 | \$ 26,346 | \$ 24,282 |
| Per common share: | | | | |
| Basic net income per common share | \$ 0.56 | \$ 0.51 | \$ 1.07 | \$ 0.99 |
| Diluted net income per common share | \$ 0.56 | \$ 0.51 | \$ 1.07 | \$ 0.99 |
| Dividends | \$ 0.17 | \$ 0.16 | \$ 0.34 | \$ 0.32 |
| Basic weighted average common shares outstanding | 24,367,529 | 24,263,881 | 24,344,882 | 24,261,649 |
| Diluted weighted average common shares outstanding | 24,368,973 | 24,273,898 | 24,346,053 | 24,272,423 |

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------------|------------------------------|------------------|
| | 2013 | 2012 | 2013 | 2012 |
| Net income | \$ 13,942 | \$ 12,567 | \$ 26,346 | \$ 24,282 |
| Other comprehensive (loss) income, net of tax: | | | | |
| Change in unrealized (depreciation) appreciation of available-for-sale securities, net of tax | (10,495) | 1,449 | (11,701) | 1,047 |
| Reclassification adjustment for gains included in net income, net of tax | | | | (171) |
| Other comprehensive (loss) income | (10,495) | 1,449 | (11,701) | 876 |
| Comprehensive income | \$ 3,447 | \$ 14,016 | \$ 14,645 | \$ 25,158 |

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)*

| | Total | Preferred Stock | Common Stock | Retained Earnings | Cost of Common Stock in Treasury | Accumulated Other Comprehensive Income (Loss), Net |
|---|------------|--------------------|-----------------|----------------------|---|---|
| Balance at January 1, 2012 | \$ 523,918 | \$ | \$ 346,535 | \$ 190,261 | \$ (31,389) | \$ 18,511 |
| Net income | 24,282 | | | 24,282 | | |
| Other comprehensive income | 876 | | | | | 876 |
| Issuance of 165,460 common shares under stock based compensation awards, including related tax effects | 3,644 | | | 85 | 3,559 | |
| Cost of 104,471 shares of common stock acquired for treasury | (2,617) | | | | (2,617) | |
| Common stock dividend (\$0.32 per share) | (7,839) | | | (7,839) | | |
| Balance at June 30, 2012 | \$ 542,264 | \$ | \$ 346,535 | \$ 206,789 | \$ (30,447) | \$ 19,387 |

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|--|----|----------|----|--|----|---------|----|---------|----|----------|----|----------|
| Balance at January 1, 2013 | \$ | 558,655 | \$ | | \$ | 346,535 | \$ | 223,715 | \$ | (31,134) | \$ | 19,539 |
| Net income | | 26,346 | | | | | | 26,346 | | | | |
| Other comprehensive loss | | (11,701) | | | | | | | | | | (11,701) |
| Issuance of 157,032 common shares under stock based compensation awards, including related tax effects | | 3,419 | | | | | | (313) | | 3,732 | | |
| Cost of 27,063 shares of common stock acquired for treasury | | (619) | | | | | | | | (619) | | |
| Common stock dividend (\$0.34 per share) | | (8,347) | | | | | | (8,347) | | | | |
| Balance at June 30, 2013 | \$ | 567,753 | \$ | | \$ | 346,535 | \$ | 241,401 | \$ | (28,021) | \$ | 7,838 |

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)

| | Six Months Ended June 30, | |
|--|----------------------------------|-------------|
| | 2013 | 2012 |
| Operating activities: | | |
| Net income | \$ 26,346 | \$ 24,282 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | | |
| Provision for loan and lease losses | 2,050 | 4,309 |
| Depreciation of premises and equipment | 2,331 | 2,094 |
| Depreciation of equipment owned and leased to others | | |