

1ST SOURCE CORP
Form 10-Q
October 22, 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 September 30, 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 October 16, 2015 — 26,082,147 shares

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

	September 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	\$61,124	\$64,834
Federal funds sold and interest bearing deposits with other banks	3,065	1,356
Investment securities available-for-sale (amortized cost of \$769,053 and \$776,057 at September 30, 2015 and December 31, 2014, respectively)	784,585	791,118
Other investments	21,728	20,801
Trading account securities	—	205
Mortgages held for sale	9,187	13,604
Loans and leases, net of unearned discount:		
Commercial and agricultural	750,780	710,758
Auto and light truck	423,147	397,902
Medium and heavy duty truck	264,784	247,153
Aircraft financing	794,129	727,665
Construction equipment financing	450,112	399,940
Commercial real estate	658,589	616,587
Residential real estate	463,824	445,759
Consumer	150,185	142,810
Total loans and leases	3,955,550	3,688,574
Reserve for loan and lease losses	(87,616	) (85,068
Net loans and leases	3,867,934	3,603,506
Equipment owned under operating leases, net	95,785	74,143
Net premises and equipment	51,252	50,328
Goodwill and intangible assets	84,822	85,371
Accrued income and other assets	126,102	124,692
Total assets	\$5,105,584	\$4,829,958
LIABILITIES		
Deposits:		
Noninterest bearing	\$914,152	\$796,241
Interest bearing	3,105,004	3,006,619
Total deposits	4,019,156	3,802,860
Short-term borrowings:		
Federal funds purchased and securities sold under agreements to repurchase	139,414	138,843
Other short-term borrowings	144,096	106,979
Total short-term borrowings	283,510	245,822
Long-term debt and mandatorily redeemable securities	57,577	56,232
Subordinated notes	58,764	58,764
Accrued expenses and other liabilities	47,356	51,807
Total liabilities	4,466,363	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 28,205,674 at September 30, 2015 and 28,206,076 at December 31, 2014*	436,538	346,535
Retained earnings	242,102	302,242
Cost of common stock in treasury (2,123,527 shares at September 30, 2015 and 1,957,386 shares at December 31, 2014)*	(49,120	) (43,711)
Accumulated other comprehensive income	9,701	9,407
Total shareholders' equity	639,221	614,473
Total liabilities and shareholders' equity	\$5,105,584	\$4,829,958

*December 31, 2014 share data gives retrospective recognition to a 10% stock dividend declared on July 22, 2015 and issued on August 14, 2015.

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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest income:				
Loans and leases	\$42,560	\$41,118	\$124,747	\$120,434
Investment securities, taxable	3,277	2,962	8,929	9,708
Investment securities, tax-exempt	738	831	2,261	2,466
Other	246	241	730	750
Total interest income	46,821	45,152	136,667	133,358
Interest expense:				
Deposits	2,874	2,765	8,271	8,730
Short-term borrowings	147	134	381	440
Subordinated notes	1,055	1,055	3,165	3,165
Long-term debt and mandatorily redeemable securities	536	488	1,540	1,533
Total interest expense	4,612	4,442	13,357	13,868
Net interest income	42,209	40,710	123,310	119,490
Provision for loan and lease losses	992	1,206	2,160	4,553
Net interest income after provision for loan and lease losses	41,217	39,504	121,150	114,937
Noninterest income:				
Trust fees	4,634	4,499	14,438	13,930
Service charges on deposit accounts	2,413	2,225	6,977	6,498
Debit card income	2,583	2,382	7,610	7,077
Mortgage banking income	969	1,446	3,459	3,961
Insurance commissions	1,460	1,317	4,147	4,168
Equipment rental income	5,881	4,361	16,302	12,541
Gains on investment securities available-for-sale	—	—	4	963
Other income	3,192	3,162	9,477	8,873
Total noninterest income	21,132	19,392	62,414	58,011
Noninterest expense:				
Salaries and employee benefits	21,835	20,790	63,554	59,099
Net occupancy expense	2,496	2,252	7,302	6,924
Furniture and equipment expense	4,604	4,415	13,471	13,065
Depreciation - leased equipment	4,858	3,571	13,342	10,110
Professional fees	1,237	1,158	3,215	3,348
Supplies and communication	1,307	1,424	4,122	4,153
FDIC and other insurance	848	856	2,544	2,570
Business development and marketing expense	1,244	1,218	3,507	3,801
Loan and lease collection and repossession expense	416	652	485	140
Other expense	2,223	1,317	5,828	4,839
Total noninterest expense	41,068	37,653	117,370	108,049
Income before income taxes	21,281	21,243	66,194	64,899

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Income tax expense	7,353	6,296	23,125	21,826
Net income	\$13,928	\$14,947	\$43,069	\$43,073
Per common share*:				
Basic net income per common share	\$0.53	\$0.56	\$1.63	\$1.61
Diluted net income per common share	\$0.53	\$0.56	\$1.63	\$1.61
Cash dividends	\$0.164	\$0.164	\$0.491	\$0.482
Basic weighted average common shares outstanding*	26,164,646	26,262,864	26,211,630	26,497,500
Diluted weighted average common shares outstanding*	26,164,646	26,262,864	26,211,630	26,497,500

*The computation of per common share data and shares outstanding gives retrospective recognition to a 10% stock dividend declared on July 22, 2015 and issued on August 14, 2015.

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,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$ 13,928	\$ 14,947	\$ 43,069	\$ 43,073
Other comprehensive income (loss):				
Change in unrealized appreciation (depreciation) of available-for-sale securities	2,256	(2,507	) 475	4,268
Reclassification adjustment for realized (gains) losses included in net income	—	—	(4	) (963
Income tax effect	(847	) 941	(177	) (1,241
Other comprehensive income (loss), net of tax	1,409	(1,566	) 294	2,064
Comprehensive income	\$ 15,337	\$ 13,381	\$ 43,363	\$ 45,137

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	—	—	43,073	—	—	43,073
Other comprehensive income	—	—	—	—	2,064	2,064
Issuance of 91,464 common shares under stock based compensation awards, including related tax effects*	—	—	(244	) 1,990	—	1,746
Cost of 597,747 shares of common stock acquired for treasury*	—	—	—	(16,342	) —	(16,342
Common stock cash dividend (\$0.482 per share)*	—	—	(12,886	) —	—	(12,886
Balance at September 30, 2014	\$—	\$ 346,535	\$ 291,569	\$(43,716	) \$ 8,645	\$ 603,033
Balance at January 1, 2015	\$—	\$ 346,535	\$ 302,242	\$(43,711	) \$ 9,407	\$ 614,473
Net income	—	—	43,069	—	—	43,069
Other comprehensive income	—	—	—	—	294	294
Issuance of 117,122 common shares under stock based compensation awards, including related tax effects*	—	—	(252) 2,799	—	2,547

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Cost of 283,263 shares of common stock acquired for treasury*	—	—	—	(8,208)	—	(8,208)
Common stock cash dividend (\$0.491 per share)*	—	—	(12,941)	—	—	(12,941)
10% common stock dividend (\$13 cash paid in lieu of fractional shares)	—	90,003	(90,016	)	—	—	(13)
Balance at September 30, 2015	\$—	\$436,538	\$242,102	\$(49,120	)	\$ 9,701	\$639,221	

*Share and per share data gives retrospective recognition to a 10% stock dividend declared on July 22, 2015 and issued on August 14, 2015.

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,	
	2015	2014
Operating activities:		
Net income	\$43,069	\$43,073
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	2,160	4,553
Depreciation of premises and equipment	3,517	3,502
Depreciation of equipment owned and leased to others	13,342	10,110
Stock-based compensation	2,953	2,640
Amortization of investment securities premiums and accretion of discounts, net	3,433	3,411
Amortization of mortgage servicing rights	1,117	930
Deferred income taxes	(3,914)	) (1,629)
Gains on investment securities available-for-sale	(4)	) (963)
Originations of loans held for sale, net of principal collected	(90,381)	) (91,936)
Proceeds from the sales of loans held for sale	97,402	87,518
Net gain on sale of loans held for sale	(2,604)	) (2,573)
Net gain on sale of other real estate and repossessions	(818)	) (1,510)
Change in trading account securities	205	(4)
Change in interest receivable	(666)	) (945)
Change in interest payable	312	(955)
Change in other assets	(4,802)	) (3,008)
Change in other liabilities	5,068	(1,218)
Other	1,200	2,288
Net change in operating activities	70,589	53,284
Investing activities:		
Proceeds from sales of investment securities	1,299	1,236
Proceeds from maturities of investment securities	78,033	138,316
Purchases of investment securities	(75,757)	) (119,700)
Net change in other investments	(927)	) (617)
Loans sold or participated to others	1,962	15,363
Net change in loans and leases	(276,108)	) (127,646)
Net change in equipment owned under operating leases	(34,984)	) (15,156)
Purchases of premises and equipment	(4,612)	) (4,254)
Proceeds from sales of other real estate and repossessions	6,788	9,522
Net change in investing activities	(304,306)	) (102,936)
Financing activities:		
Net change in demand deposits and savings accounts	140,737	52,369
Net change in time deposits	75,559	129,953
Net change in short-term borrowings	37,688	(97,409)
Proceeds from issuance of long-term debt	—	7,185
Payments on long-term debt	(924)	) (11,433)
Stock issued under stock purchase plans	149	197
Acquisition of treasury stock	(8,208)	) (16,342)
Cash dividends paid on common stock	(13,285)) (13,209)
Net change in financing activities	231,716	51,311

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Net change in cash and cash equivalents	(2,001) 1,659
Cash and cash equivalents, beginning of year	66,190	80,052
Cash and cash equivalents, end of period	\$64,189	\$81,711
Supplemental Information:		
Non-cash transactions:		
Loans transferred to other real estate and repossessed assets	\$7,558	\$6,528
Common stock matching contribution to Employee Stock Ownership and Profit Sharing Plan	500	—

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

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1ST SOURCE CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Accounting Policies

1st Source Corporation is a bank holding company headquartered in South Bend, Indiana that provides, through its subsidiaries (collectively referred to as “1st Source” or “the Company”), a broad array of financial products and services.

Basis of Presentation – The accompanying unaudited consolidated financial statements reflect all adjustments (all of which are normal and recurring in nature) which are, in the opinion of management, necessary for a fair presentation of the consolidated financial position, the results of operations, changes in comprehensive income, changes in shareholders’ equity, and cash flows for the periods presented. These unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission (SEC) and, therefore, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been omitted.

The Notes to the Consolidated Financial Statements appearing in 1st Source Corporation’s Annual Report on Form 10-K (2014 Annual Report), which include descriptions of significant accounting policies, should be read in conjunction with these interim financial statements. The Consolidated Statement of Financial Condition at December 31, 2014 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. Certain amounts in the prior period consolidated financial statements have been reclassified to conform to the current year presentation.

Use of Estimates in the Preparation of Financial Statements – Financial statements prepared in accordance with GAAP require the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates.

Loans and Leases – Loans are stated at the principal amount outstanding, net of unamortized deferred loan origination fees and costs and net of unearned income. Interest income is accrued as earned based on unpaid principal balances. Origination fees and direct loan and lease origination costs are deferred and the net amount amortized to interest income over the estimated life of the related loan or lease. Loan commitment fees are deferred and amortized into other income over the commitment period.

Direct financing leases are carried at the aggregate of lease payments plus estimated residual value of the leased property, net of unamortized deferred lease origination fees and costs and unearned income. Interest income on direct financing leases is recognized over the term of the lease to achieve a constant periodic rate of return on the outstanding investment.

The accrual of interest on loans and leases is discontinued when a loan or lease becomes contractually delinquent for 90 days, or when an individual analysis of a borrower’s credit worthiness indicates a credit should be placed on nonperforming status, except for residential mortgage loans and consumer loans that are well secured and in the process of collection. Residential mortgage loans are placed on nonaccrual at the time the loan is placed in foreclosure. When interest accruals are discontinued, interest credited to income in the current year is reversed and interest accrued in the prior year is charged to the reserve for loan and lease losses. However, in some cases, the Company may elect to continue the accrual of interest when the net realizable value of collateral is sufficient to cover the principal and accrued interest. When a loan or lease is classified as nonaccrual and the future collectibility of the recorded loan or lease balance is doubtful, collections on interest and principal are applied as a reduction to principal outstanding. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured, which is typically evidenced by a sustained repayment performance of at least six months.

A loan or lease is considered impaired, based on current information and events, if it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan or lease agreement. Interest on impaired loans and leases, which are not classified as nonaccrual, is recognized on the accrual basis. The Company evaluates loans and leases exceeding \$100,000 for impairment and establishes a specific reserve as a component of the reserve for loan and lease losses when it is probable all amounts

due will not be collected pursuant to the contractual terms of the loan or lease and the recorded investment in the loan or lease exceeds its fair value.

Loans and leases that have been modified and economic concessions have been granted to borrowers who have experienced financial difficulties are considered a troubled debt restructuring (TDR) and, by definition, are deemed an impaired loan. These concessions typically result from the Company's loss mitigation activities and may include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructuring and typically are returned to performing status after considering the borrower's sustained repayment performance for a reasonable period of at least six months.

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When the Company modifies loans and leases in a TDR, it evaluates any possible impairment similar to other impaired loans based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan or lease agreement, or uses the current fair value of the collateral, less selling costs for collateral dependent loans. If the Company determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through a reserve for loan and lease losses estimate or a charge-off to the reserve for loan and lease losses. In periods subsequent to modification, the Company evaluates all TDRs, including those that have payment defaults, for possible impairment and recognizes impairment through the reserve for loan and lease losses.

Note 2. Recent Accounting Pronouncements

Short Duration Contracts: In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-09 “Financial Services - Insurance (Topic 944) - Disclosures about Short Duration Contracts.” ASU 2015-09 includes amendments that require insurance entities to disclose for annual reporting periods information about the liability for unpaid claims and claim adjustment expenses as well as significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses. In addition, the amendments require a roll-forward of the liability for unpaid claims and claim adjustment expenses on an annual and interim basis. The amendments are effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016 and should be applied retrospectively. Early adoption is permitted. The Company is assessing the impact of ASU 2015-09 on its disclosures.

Consolidations: In February 2015, the FASB issued ASU No. 2015-02 “Consolidation (Topic 810) - Amendments to the Consolidation Analysis.” ASU 2015-02 includes amendments that are intended to improve targeted areas of consolidation for legal entities including reducing the number of consolidation models from four to two and simplifying the FASB Accounting Standards Codification. ASU 2015-02 is effective for annual and interim periods within those annual periods, beginning after December 15, 2015. The amendments may be applied retrospectively in previously issued financial statements for one or more years with a cumulative effect adjustment to retained earnings as of the beginning of the first year restated. Early adoption is permitted, including adoption in an interim period. The Company is assessing the impact of ASU 2015-02 on its accounting and disclosures.

Troubled Debt Restructurings by Creditors: In August 2014, the FASB issued ASU No. 2014-14 “Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40) - Classification of Certain Government Guaranteed Mortgage Loans upon Foreclosure.” ASU 2014-14 requires that a mortgage loan be derecognized and a separate other receivable be recognized upon foreclosure if certain conditions are met. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. ASU 2014-14 is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2014. The amendments can be applied using either a prospective transition method or a modified retrospective transition method. Early adoption is permitted. The Company adopted ASU 2014-14 on January 1, 2015 and it did not have an impact on its accounting and disclosures.

Share Based Payments: In June 2014, the FASB issued ASU No. 2014-12 “Compensation - Stock Compensation (Topic 718) - Accounting for Share Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period.” ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 is effective for interim and annual periods beginning after December 15, 2015. The amendments can be applied prospectively to all awards granted or modified after the effective date or retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented and to all new or modified awards thereafter. Early adoption is permitted. The Company has determined that ASU 2014-12 will not have an impact on its accounting and disclosures.

Repurchase to Maturity Transactions, Repurchase Financings and Disclosures: In June 2014, the FASB issued ASU No. 2014-11 “Transfers and Servicing (Topic 860) - Repurchase to Maturity Transactions, Repurchase Financings, and Disclosures.” ASU 2014-11 aligns the accounting for repurchase to maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. ASU 2014-11 is effective for the first interim or annual

period beginning after December 15, 2014. In addition the disclosure of certain transactions accounted for as a sale is effective for the first interim or annual period beginning on or after December 15, 2014, and the disclosure for transactions accounted for as secured borrowings is required for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. Early adoption is prohibited. The Company adopted ASU 2014-11 on January 1, 2015 and it did not have a material impact on its accounting and disclosures.

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Revenue from Contracts with Customers: In May 2014, the FASB issued ASU No. 2014-09 “Revenue from Contracts with Customers (Topic 606).” The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. On July 9, 2015, the FASB approved amendments deferring the effective date by one year. ASU 2014-09 is now effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The amendments can be applied retrospectively to each prior reporting period or retrospectively with the cumulative effect of initially applying this Update recognized at the date of initial application. Early application is permitted but not before the original public entity effective date, i.e., annual periods beginning after December 15, 2016. The Company is assessing the impact of ASU 2014-09 on its accounting and disclosures.

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure: In January 2014, the FASB issued ASU No. 2014-04 “Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40) - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure.” ASU 2014-04 clarifies when an in substance repossession or foreclosure occurs and requires interim and annual disclosures of the amount of foreclosed residential real estate property and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. ASU 2014-04 is effective either on a modified retrospective transition method or a prospective transition method for interim and annual periods beginning after December 15, 2014. Early adoption is permitted. The Company adopted ASU 2014-04 on January 1, 2015 and it did not have a material impact on its disclosures.

Accounting for Investments in Qualified Affordable Housing Projects: In January 2014, the FASB issued ASU No. 2014-01 “Investments - Equity method and Joint Ventures (Topic 323) - Accounting for Investments in Qualified Affordable Housing Projects.” ASU 2014-01 allows investors to use the proportional amortization method to account for investments in limited liability entities that manage or invest in affordable housing projects that qualify for low-income housing tax credits if certain conditions are met. ASU 2014-01 is effective retrospectively for interim and annual periods in fiscal years that begin after December 15, 2014. Early adoption is permitted. The Company adopted ASU 2014-01 on January 1, 2015 and it did not have a material impact on its accounting and disclosures for affordable housing projects.

Note 3. Investment Securities

The following table shows investment securities available-for-sale.

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2015				
U.S. Treasury and Federal agencies securities	\$380,723	\$ 3,570	\$ (217)	) \$384,076
U.S. States and political subdivisions securities	118,770	2,944	(122)	) 121,592
Mortgage-backed securities — Federal agencies	232,568	4,681	(841)	) 236,408
Corporate debt securities	34,299	324	(14)	) 34,609
Foreign government and other securities	800	11	—	) 811
Total debt securities	767,160	11,530	(1,194)	) 777,496
Marketable equity securities	1,893	5,357	(161)	) 7,089
Total investment securities available-for-sale	\$769,053	\$ 16,887	\$ (1,355)	) \$784,585
December 31, 2014				
U.S. Treasury and Federal agencies securities	\$371,878	\$ 3,593	\$ (1,968)	) \$373,503
U.S. States and political subdivisions securities	121,510	3,392	(214)) 124,688

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Mortgage-backed securities — Federal agencies	248,299	5,490	(781) 253,008
Corporate debt securities	31,677	281	(26) 31,932
Foreign government and other securities	800	11	—	811
Total debt securities	774,164	12,767	(2,989	) 783,942
Marketable equity securities	1,893	5,285	(2	) 7,176
Total investment securities available-for-sale	\$776,057	\$ 18,052	\$ (2,991	) \$791,118

At September 30, 2015 and December 31, 2014, the residential mortgage-backed securities held by the Company consisted primarily of GNMA, FNMA and FHLMC pass-through certificates which are guaranteed by those respective agencies of the United States government (Government Sponsored Enterprise, GSEs).

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The following table shows the contractual maturities of investments in securities available-for-sale at September 30, 2015. Expected maturities will differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	\$107,463	\$108,140
Due after one year through five years	409,967	415,432
Due after five years through ten years	17,162	17,516
Due after ten years	—	—
Mortgage-backed securities	232,568	236,408
Total debt securities available-for-sale	\$767,160	\$777,496

The following table shows the gross realized gains and losses on sale of securities from the securities available-for-sale portfolio, including marketable equity securities. Realized gains and losses on the sales of all securities are computed using the specific identification cost basis. The gross gains for the nine months ended September 30, 2014 reflect the sale of marketable equity securities.

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Gross realized gains	\$—	\$—	\$4	\$963
Gross realized losses	—	—	—	—
Net realized gains (losses)	\$—	\$—	\$4	\$963

The following table summarizes gross unrealized losses and fair value by investment category and age.

(Dollars in thousands)	Less than 12 Months		12 months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2015						
U.S. Treasury and Federal agencies securities	\$16,881	\$(8)	\$74,746	\$(209)	\$91,627	\$(217)
U.S. States and political subdivisions securities	13,288	(91)	2,325	(31)	15,613	(122)
Mortgage-backed securities - Federal agencies	31,223	(226)	19,088	(615)	50,311	(841)
Corporate debt securities	1,741	(14)	—	—	1,741	(14)
Foreign government and other securities	100	—	—	—	100	—
Total debt securities	63,233	(339)	96,159	(855)	159,392	(1,194)
Marketable equity securities	487	(159)	3	(2)	490	(161)
Total investment securities available-for-sale	\$63,720	\$(498)	\$96,162	\$(857)	\$159,882	\$(1,355)
December 31, 2014						
U.S. Treasury and Federal agencies securities	\$54,944	\$(148)	\$115,195	\$(1,820)	\$170,139	\$(1,968)
U.S. States and political subdivisions securities	16,805	(112)	8,333	(102)	25,138	(214)
Mortgage-backed securities - Federal agencies	21,754	(62)	32,781	(719)	54,535	(781)
Corporate debt securities	3,072	(26)	—	—	3,072	(26)
Foreign government and other securities	—	—	—	—	—	—
Total debt securities	96,575	(348)	156,309	(2,641)	252,884	(2,989)
Marketable equity securities	—	—	3	(2)	3	(2)
Total investment securities available-for-sale	\$96,575	\$(348)	\$156,312	\$(2,643)	\$252,887	\$(2,991)

The initial indication of other-than-temporary-impairment (OTTI) for both debt and equity securities is a decline in fair value below amortized cost. Quarterly, the impaired securities are analyzed on a qualitative and quantitative basis in determining OTTI. Declines in the fair value of available-for-sale debt securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of impairment related to other factors is recognized in other comprehensive income. In estimating OTTI impairment losses, the Company considers among other things, (i) the length of time and the extent to which fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) whether it is more likely than not that the Company will not have to sell any such securities before a recovery of cost.

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There were no OTTI write-downs in 2015 or 2014.

At September 30, 2015, the Company does not have the intent to sell any of the available-for-sale securities in the table above and believes that it is more likely than not, that it will not have to sell any such securities before an anticipated recovery of cost. Primarily the unrealized losses on debt securities are due to increases in market rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover on all debt securities as they approach their maturity date or re-pricing date or if market yields for such investments decline. The Company does not believe any of the securities are impaired due to reasons of credit quality.

At September 30, 2015 and December 31, 2014, investment securities with carrying values of \$218.75 million and \$231.50 million, respectively, were pledged as collateral for security repurchase agreements and for other purposes.

Note 4. Loan and Lease Financings

The Company evaluates loans and leases for credit quality at least annually but more frequently if certain circumstances occur (such as material new information which becomes available and indicates a potential change in credit risk). The Company uses two methods to assess credit risk: loan or lease credit quality grades and credit risk classifications. The purpose of the loan or lease credit quality grade is to document the degree of risk associated with individual credits as well as inform management of the degree of risk in the portfolio taken as a whole. Credit risk classifications are used to categorize loans by degree of risk and to designate individual or committee approval authorities for higher risk credits at the time of origination. Credit risk classifications include categories for: Acceptable, Marginal, Special Attention, Special Risk, Restricted by Policy, Regulated and Prohibited by Law. All loans and leases, except residential real estate loans and consumer loans, are assigned credit quality grades on a scale from 1 to 12 with grade 1 representing superior credit quality. The criteria used to assign grades to extensions of credit that exhibit potential problems or well-defined weaknesses are primarily based upon the degree of risk and the likelihood of orderly repayment, and their effect on the Company's safety and soundness. Loans or leases graded 7 or weaker are considered "special attention" credits and, as such, relationships in excess of \$100,000 are reviewed quarterly as part of management's evaluation of the appropriateness of the reserve for loan and lease losses. Grade 7 credits are defined as "watch" and contain greater than average credit risk and are monitored to limit the exposure to increased risk; grade 8 credits are "special mention" and, following regulatory guidelines, are defined as having potential weaknesses that deserve management's close attention. Credits that exhibit well-defined weaknesses and a distinct possibility of loss are considered "classified" and are graded 9 through 12 corresponding to the regulatory definitions of "substandard" (grades 9 and 10) and the more severe "doubtful" (grade 11) and "loss" (grade 12). The following table shows the credit quality grades of the recorded investment in loans and leases, segregated by class.

(Dollars in thousands)	Credit Quality Grades		
	1-6	7-12	Total
September 30, 2015			
Commercial and agricultural	\$735,249	\$15,531	\$750,780
Auto and light truck	412,083	11,064	423,147
Medium and heavy duty truck	261,691	3,093	264,784
Aircraft financing	765,908	28,221	794,129
Construction equipment financing	442,876	7,236	450,112
Commercial real estate	640,751	17,838	658,589
Total	\$3,258,558	\$82,983	\$3,341,541
December 31, 2014			
Commercial and agricultural	\$683,169	\$27,589	\$710,758
Auto and light truck	380,425	17,477	397,902
Medium and heavy duty truck	243,798	3,355	247,153
Aircraft financing	691,018	36,647	727,665
Construction equipment financing	393,965	5,975	399,940
Commercial real estate	592,787	23,800	616,587

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Total	\$2,985,162	\$114,843	\$3,100,005
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For residential real estate and consumer loans, credit quality is based on the aging status of the loan and by payment activity. The following table shows the recorded investment in residential real estate and consumer loans by performing or nonperforming status. Nonperforming loans are those loans which are on nonaccrual status or are 90 days or more past due.

(Dollars in thousands)	Performing	Nonperforming	Total
September 30, 2015			
Residential real estate	\$461,156	\$2,668	\$463,824
Consumer	149,845	340	150,185
Total	\$611,001	\$3,008	\$614,009
December 31, 2014			
Residential real estate	\$442,918	\$2,841	\$445,759
Consumer	142,476	334	142,810
Total	\$585,394	\$3,175	\$588,569

The following table shows the recorded investment of loans and leases, segregated by class, with delinquency aging and nonaccrual status.

(Dollars in thousands)	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due and Accruing	Total Accruing Loans	Nonaccrual	Total Financing Receivables
September 30, 2015							
Commercial and agricultural	\$743,570	\$67	\$—	\$—	\$743,637	\$7,143	\$750,780
Auto and light truck	422,943	141	12	—	423,096	51	423,147
Medium and heavy duty truck	264,784	—	—	—	264,784	—	264,784
Aircraft financing	772,554	6,718	7,681	—	786,953	7,176	794,129
Construction equipment financing	448,996	461	—	—	449,457	655	450,112
Commercial real estate	657,102	124	—	—	657,226	1,363	658,589
Residential real estate	459,657	1,049	450	341	461,497	2,327	463,824
Consumer	148,876	834	135	70	149,915	270	150,185
Total	\$3,918,482	\$9,394	\$8,278	\$411	\$3,936,565	\$18,985	\$3,955,550
December 31, 2014							
Commercial and agricultural	\$696,351	\$—	\$123	\$—	\$696,474	\$14,284	\$710,758
Auto and light truck	397,815	48	1	—	397,864	38	397,902
Medium and heavy duty truck	247,097	—	—	—	247,097	56	247,153
Aircraft financing	699,054	541	15,597	—	715,192	12,473	727,665
Construction equipment financing	396,821	999	1,369	—	399,189	751	399,940
Commercial real estate	611,780	—	—	—	611,780	4,807	616,587
Residential real estate	441,508	1,099	311	873	443,791	1,968	445,759
Consumer	141,577	676	223	109	142,585	225	142,810
Total	\$3,632,003	\$3,363	\$17,624	\$982	\$3,653,972	\$34,602	\$3,688,574

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The following table shows impaired loans and leases, segregated by class, and the corresponding reserve for impaired loan and lease losses.

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Reserve
September 30, 2015			
With no related reserve recorded:			
Commercial and agricultural	\$752	\$752	\$—
Auto and light truck	—	—	—
Medium and heavy duty truck	—	—	—
Aircraft financing	4,687	4,687	—
Construction equipment financing	655	655	—
Commercial real estate	8,264	8,264	—
Residential real estate	—	—	—
Consumer	—	—	—
Total with no related reserve recorded	14,358	14,358	—
With a reserve recorded:			
Commercial and agricultural	5,919	5,919	2,710
Auto and light truck	—	—	—
Medium and heavy duty truck	—	—	—
Aircraft financing	2,460	2,460	617
Construction equipment financing	—	—	—
Commercial real estate	751	751	22
Residential real estate	368	370	150
Consumer	—	—	—
Total with a reserve recorded	9,498	9,500	3,499
Total impaired loans	\$23,856	\$23,858	\$3,499
December 31, 2014			
With no related reserve recorded:			
Commercial and agricultural	\$14,468	\$14,467	\$—
Auto and light truck	—	—	—
Medium and heavy duty truck	—	—	—
Aircraft financing	12,740	12,741	—
Construction equipment financing	746	746	—
Commercial real estate	11,707	11,707	—
Residential real estate	—	—	—
Consumer	—	—	—
Total with no related reserve recorded	39,661		