1ST SOURCE CORP
Form 10-Q
July 23, 2015

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, 2015

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

(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. 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 (Do not check if a smaller reporting company)	Smaller reporting company o

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

Number of shares of common stock outstanding as of July 17, 2015 — 26,199,344 shares

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

	June 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$66,302	$64,834
Federal funds sold and interest bearing deposits with other banks	11,396	1,356
Investment securities available-for-sale (amortized cost of $773,195 and $776,057 at June 30, 2015 and December 31, 2014, respectively)	786,471	791,118
Other investments	20,743	20,801
Trading account securities	211	205
Mortgages held for sale	14,782	13,604
Loans and leases, net of unearned discount:		
Commercial and agricultural	719,972	710,758
Auto and light truck	446,731	397,902
Medium and heavy duty truck	250,045	247,153
Aircraft financing	751,665	727,665
Construction equipment financing	445,479	399,940
Commercial real estate	641,205	616,587
Residential real estate	454,730	445,759
Consumer	142,872	142,810
Total loans and leases	3,852,699	3,688,574
Reserve for loan and lease losses	(86,588)	(85,068)
Net loans and leases	3,766,111	3,603,506
Equipment owned under operating leases, net	93,875	74,143
Net premises and equipment	50,931	50,328
Goodwill and intangible assets	84,967	85,371
Accrued income and other assets	118,234	124,692
Total assets	$5,014,023	$4,829,958
LIABILITIES		
Deposits:		
Noninterest bearing	$857,079	$796,241
Interest bearing	3,105,506	3,006,619
Total deposits	3,962,585	3,802,860
Short-term borrowings:		
Federal funds purchased and securities sold under agreements to repurchase	122,658	138,843
Other short-term borrowings	139,529	106,979
Total short-term borrowings	262,187	245,822
Long-term debt and mandatorily redeemable securities	57,488	56,232
Subordinated notes	58,764	58,764
Accrued expenses and other liabilities	41,368	51,807
Total liabilities	4,382,392	4,215,485
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 28,206,076 at June 30, 2015 and December 31, 2014*	436,538	346,535
Retained earnings*	232,507	302,242
Cost of common stock in treasury (2,009,732 shares at June 30, 2015 and 1,957,386 shares at December 31, 2014)*	(45,706)	(43,711)
Accumulated other comprehensive income	8,292	9,407
Total shareholders’ equity	631,631	614,473
Total liabilities and shareholders’ equity	$5,014,023	$4,829,958

*Share data and June 30, 2015 common stock and retained earnings gives retrospective recognition to a 10% stock dividend declared on July 22, 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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest income:				
Loans and leases	$42,583	$40,401	$82,187	$79,316
Investment securities, taxable	2,648	3,401	5,652	6,746
Investment securities, tax-exempt	754	816	1,523	1,635
Other	229	232	484	509
Total interest income	46,214	44,850	89,846	88,206
Interest expense:				
Deposits	2,838	2,994	5,397	5,965
Short-term borrowings	131	169	234	306
Subordinated notes	1,055	1,055	2,110	2,110
Long-term debt and mandatorily redeemable securities	525	470	1,004	1,045
Total interest expense	4,549	4,688	8,745	9,426
Net interest income	41,665	40,162	81,101	78,780
Provision for loan and lease losses	811	2,543	1,168	3,347
Net interest income after provision for loan and lease losses	40,854	37,619	79,933	75,433
Noninterest income:				
Trust fees	5,247	4,955	9,804	9,431
Service charges on deposit accounts	2,367	2,207	4,564	4,273
Debit card income	2,628	2,463	5,027	4,695
Mortgage banking income	1,239	1,181	2,490	2,515
Insurance commissions	1,382	1,288	2,687	2,851
Equipment rental income	5,342	4,098	10,421	8,180
Gains on investment securities available-for-sale	4	—	4	963
Other income	3,322	3,029	6,285	5,711
Total noninterest income	21,531	19,221	41,282	38,619
Noninterest expense:				
Salaries and employee benefits	20,794	18,827	41,719	38,309
Net occupancy expense	2,345	2,235	4,806	4,672
Furniture and equipment expense	4,531	4,413	8,867	8,650
Depreciation - leased equipment	4,396	3,290	8,484	6,539
Professional fees	1,108	1,062	1,978	2,190
Supplies and communication	1,409	1,337	2,815	2,729
FDIC and other insurance	847	850	1,696	1,714
Business development and marketing expense	1,214	899	2,263	2,583
Loan and lease collection and repossession expense	(294)	(17)	69	(512)
Other expense	1,891	1,528	3,605	3,522
Total noninterest expense	38,241	34,424	76,302	70,396
Income before income taxes	24,144	22,416	44,913	43,656

Income tax expense	8,514	7,922	15,772	15,530
Net income	$15,630	$14,494	$29,141	$28,126
Per common share*:				
Basic net income per common share	$0.59	$0.54	$1.10	$1.04
Diluted net income per common share	$0.59	$0.54	$1.10	$1.04
Dividends	$0.164	$0.164	$0.327	$0.318
Basic weighted average common shares outstanding*	26,212,999	26,485,789	26,235,511	26,616,762
Diluted weighted average common shares outstanding*	26,212,999	26,485,789	26,235,511	26,616,762

*The computation of per common share data and shares outstanding gives retrospective recognition to a 10% stock dividend declared on July 22, 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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$15,630	$14,494	$29,141	$28,126
Other comprehensive income (loss):				
Change in unrealized (depreciation) appreciation of available-for-sale securities	(4,727)	2,759	(1,781)	6,775
Reclassification adjustment for realized (gains) losses included in net income	(4)	—	(4)	(963)
Income tax effect	1,776	(1,036)	670	(2,182)
Other comprehensive (loss) income, net of tax	(2,955)	1,723	(1,115)	3,630
Comprehensive income	$12,675	$16,217	$28,026	$31,756

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	—	—	28,126	—	—	28,126
Other comprehensive income	—	—	—	—	3,630	3,630
Issuance of 71,749 common shares under stock based compensation awards, including related tax effects	—	—	(276)	1,716	—	1,440
Cost of 524,858 shares of common stock acquired for treasury	—	—	—	(15,797)	—	(15,797)
Common stock dividend ($0.318 per share)*	—	—	(8,559)	—	—	(8,559)
Balance at June 30, 2014	$—	$346,535	$280,917	$(43,445)	$ 10,211	$594,218
Balance at January 1, 2015	$—	$346,535	$302,242	$(43,711)	$ 9,407	$614,473
Net income	—	—	29,141	—	—	29,141
Other comprehensive loss	—	—	—	—	(1,115)	(1,115)
Issuance of 102,257 common shares under stock based compensation awards, including related tax effects	—	—	(237)	2,683	—	2,446
	—	—	—	(4,678)	—	(4,678)

Cost of 149,844 shares of common stock acquired for treasury						
Common stock dividend ($0.327 per share)*	—	—	(8,636)	—	—	(8,636)
10% common stock dividend	—	90,003	(90,003)	—	—	—
Balance at June 30, 2015	$—	$436,538	$232,507	$(45,706)	$ 8,292	$631,631

*Per share data gives retrospective recognition to a 10% stock dividend declared on July 22, 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)

	Six Months Ended June 30,	
	2015	2014
Operating activities:		
Net income	$29,141	$28,126
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	1,168	3,347
Depreciation of premises and equipment	2,302	2,370
Depreciation of equipment owned and leased to others	8,484	6,539
Stock-based compensation	2,079	1,836
Amortization of investment securities premiums and accretion of discounts, net	2,597	2,093
Amortization of mortgage servicing rights	778	596
Deferred income taxes	(2,159)	(3,335)
Gains on investment securities available-for-sale	(4)	(963)
Originations of loans held for sale, net of principal collected	(66,312)	(57,503)
Proceeds from the sales of loans held for sale	67,143	46,154
Net gain on sale of loans held for sale	(2,009)	(1,606)
Net gain on sale of other real estate and repossessions	(772)	(1,510)
Change in trading account securities	(6)	(6)
Change in interest receivable	117	(479)
Change in interest payable	289	(19)
Change in other assets	987	(206)
Change in other liabilities	(1,032)	(4,505)
Other	690	1,898
Net change in operating activities	43,481	22,827
Investing activities:		
Proceeds from sales of investment securities	1,299	1,236
Proceeds from maturities of investment securities	47,314	106,541
Purchases of investment securities	(48,344)	(85,452)
Net change in other investments	58	(1,197)
Loans sold or participated to others	1,962	7,805
Net change in loans and leases	(171,601)	(186,436)
Net change in equipment owned under operating leases	(28,216)	(8,922)
Purchases of premises and equipment	(2,934)	(1,587)
Proceeds from sales of other real estate and repossessions	6,536	9,395
Net change in investing activities	(193,926)	(158,617)
Financing activities:		
Net change in demand deposits and savings accounts	104,266	70,848
Net change in time deposits	55,459	91,237
Net change in short-term borrowings	16,365	35,871
Proceeds from issuance of long-term debt	—	5,791
Payments on long-term debt	(743)	(6,261)
Stock issued under stock purchase plans	149	197
Acquisition of treasury stock	(4,678)	(15,797)
Cash dividends paid on common stock	(8,865)	(8,770)
Net change in financing activities	161,953	173,116

Net change in cash and cash equivalents	11,508	37,326
Cash and cash equivalents, beginning of year	66,190	80,052
Cash and cash equivalents, end of period	$77,698	$117,378
Supplemental Information:		
Non-cash transactions:		
Loans transferred to other real estate and repossessed assets	$5,866	$6,344
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. Basis of Presentation

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. 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.

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.

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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.

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.

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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
June 30, 2015				
U.S. Treasury and Federal agencies securities	$383,369	$ 3,443	$ (898)	$385,914
U.S. States and political subdivisions securities	121,353	2,629	(274)	123,708
Mortgage-backed securities — Federal agencies	232,454	4,369	(1,573)	235,250
Corporate debt securities	33,326	271	(20)	33,577
Foreign government and other securities	800	7	—	807
Total debt securities	771,302	10,719	(2,765)	779,256
Marketable equity securities	1,893	5,408	(86)	7,215
Total investment securities available-for-sale	$773,195	$ 16,127	$ (2,851)	$786,471
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
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 June 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).

The following table shows the contractual maturities of investments in securities available-for-sale at June 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	$83,048	$83,639
Due after one year through five years	429,898	434,308
Due after five years through ten years	25,902	26,059
Due after ten years	—	—
Mortgage-backed securities	232,454	235,250
Total debt securities available-for-sale	$771,302	$779,256

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 six months ended June 30, 2014 reflect the sale of marketable equity securities.

	Three Months Ended June 30,	Six Months Ended June 30,

(Dollars in thousands)	2015	2014	2015	2014
Gross realized gains	$4	$—	$4	$963
Gross realized losses	—	—	—	—
Net realized gains (losses)	$4	$—	$4	$963

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

	Less than 12 Months		12 months or Longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2015						
U.S. Treasury and Federal agencies securities	$24,563	$(72)	$104,158	$(826)	$128,721	$(898)
U.S. States and political subdivisions securities	31,585	(241)	2,068	(33)	33,653	(274)
Mortgage-backed securities - Federal agencies	62,521	(639)	18,952	(934)	81,473	(1,573)
Corporate debt securities	3,833	(19)	999	(1)	4,832	(20)
Foreign government and other securities	—	—	—	—	—	—
Total debt securities	122,502	(971)	126,177	(1,794)	248,679	(2,765)
Marketable equity securities	560	(85)	3	(1)	563	(86)
Total investment securities available-for-sale	$123,062	$(1,056)	$126,180	$(1,795)	$249,242	$(2,851)
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.

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

At June 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 June 30, 2015 and December 31, 2014, investment securities with carrying values of $227.29 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.

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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.

	Credit Quality Grades		
(Dollars in thousands)	1-6	7-12	Total
June 30, 2015			
Commercial and agricultural	$703,841	$16,131	$719,972
Auto and light truck	426,119	20,612	446,731
Medium and heavy duty truck	247,339	2,706	250,045
Aircraft financing	728,489	23,176	751,665
Construction equipment financing	438,594	6,885	445,479
Commercial real estate	621,689	19,516	641,205
Total	$3,166,071	$89,026	$3,255,097
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
Total	$2,985,162	$114,843	$3,100,005

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
June 30, 2015			
Residential real estate	$452,182	$2,548	$454,730
Consumer	142,607	265	142,872
Total	$594,789	$2,813	$597,602
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

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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
June 30, 2015							
Commercial and agricultural	$717,653	$114	$77	$—	$717,844	$2,128	$719,972
Auto and light truck	446,507	131	80	—	446,718	13	446,731
Medium and heavy duty truck	250,045	—	—	—	250,045	—	250,045
Aircraft financing	736,085	531	7,748	—	744,364	7,301	751,665
Construction equipment financing	444,001	562	184	—	444,747	732	445,479
Commercial real estate	638,832	—	—	—	638,832	2,373	641,205
Residential real estate	451,216	640	326	221	452,403	2,327	454,730
Consumer	141,713	679	215	57	142,664	208	142,872
Total	$3,826,052	$2,657	$8,630	$278	$3,837,617	$15,082	$3,852,699
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
June 30, 2015			
With no related reserve recorded:			
Commercial and agricultural	$656	$655	$—
Auto and light truck	—	—	—
Medium and heavy duty truck	—	—	—
Aircraft financing	4,714	4,714	—
Construction equipment financing	728	728	—
Commercial real estate	9,166	9,166	—
Residential real estate	—	—	—
Consumer	—	—	—
Total with no related reserve recorded	15,264	15,263	—
With a reserve recorded:			
Commercial and agricultural	1,382	1,382	112
Auto and light truck	—	—	—
Medium and heavy duty truck	—	—	—
Aircraft financing	2,460	2,460	501
Construction equipment financing	—	—	—
Commercial real estate	767	767	38
Residential real estate	369	372	152
Consumer	—	—	—
Total with a reserve recorded	4,978	4,981	803
Total impaired loans	$20,242	$20,244	$803
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	39,661	—
With a reserve recorded:			
Commercial and agricultural	74	74	5
Auto and light truck	—	—	—
Medium and heavy duty truck	—	—	—
Aircraft financing	—	—	—
Construction equipment financing	—	—	—
Commercial real estate	798	798	80
Residential real estate	373	376	156
Consumer	—	—	—
Total with a reserve recorded	1,245	1,248	241

Total impaired loans	$40,906	$40,909	$241

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The following table shows average recorded investment and interest income recognized on impaired loans and leases, segregated by class.

(Dollars in thousands)	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
	Average Recorded Investment	Interest Income	Average Recorded Investment	Interest Income	Average Recorded Investment	Interest Income	Average Recorded Investment	Interest Income
Commercial and agricultural	$2,134	$6	$15,261	$9	$5,971	$16	$13,258	$24
Auto and light truck	—	—	—	—	—	—	814	—
Medium and heavy duty truck	—	—	—	—	—	—	—	—
Aircraft financing	7,269	—	1,573	4	8,207	6	4,274	14
Construction equipment financing	731	—	1,113	—	735	—	1,031	—
Commercial real estate	10,735	142	12,709	147	11,319	284	13,188	294
Residential real estate	371	4	377	4	372	8	377	8
Consumer	—	—	—	—	—	—	—	—
Total	$21,240	$152	$31,033	$164	$26,604	$314	$32,942	$340

There were no loan and lease modifications classified as troubled debt restructurings (TDR) during the three months ended June 30, 2015 and 2014. There were no loan and lease modifications classified as TDR during the six months ended June 30, 2015 and one performing loan modification classified as TDR during the six months ended June 30, 2014. The classification between nonperforming and performing is determined at the time of modification. Modification programs focus on extending maturity dates or modifying payment patterns with most TDRs experiencing a combination of concessions. The modification did not result in the contractual forgiveness of principal or interest. There were no modifications during the six months ended June 30, 2015 and 2014 that resulted in an interest rate reduction below market rate. Consequently, the financial impact of the modification was immaterial. There were no TDRs which had payment defaults within the twelve months following modification during the three and six months ended June 30, 2015 and 2014. Default occurs when a loan or lease is 90 days or more past due under the modified terms or transferred to nonaccrual.

The following table shows the recorded investment of loans and leases classified as troubled debt restructurings as of June 30, 2015 and December 31, 2014.

(Dollars in thousands)	June 30, 2015	December 31, 2014
Performing TDRs	$8,344	$9,118
Nonperforming TDRs	2,227	14,507
Total TDRs	$10,571	$23,625

Note 5. Reserve for Loan and Lease Losses

The reserve for loan and lease loss methodology has been consistently applied for several years, with enhancements instituted periodically. Reserve ratios are reviewed quarterly and revised periodically to reflect recent loss history and to incorporate current risks and trends which may not be recognized in historical data. As the historical charge-off analysis is updated, the Company reviews the look-back periods for each business loan portfolio. Furthermore, a thorough analysis of charge-offs, non-performing asset levels, special attention outstandings and delinquency is performed in order to review portfolio trends and other factors, including specific industry risks and economic conditions, which may have an impact on the reserves and reserve ratios applied to various portfolios. The Company adjusts the calculated historical based ratio as a result of the analysis of environmental factors, principally economic risk and concentration risk. Key economic factors affecting the portfolios are growth in gross domestic product, unemployment rates, housing market trends, commodity prices, inflation and global economic and political issues. Concentration risk is impacted primarily by geographic concentration in Northern Indiana and Southwestern Lower

Michigan in the business banking and commercial real estate portfolios and by collateral concentration in the specialty finance portfolios and exposure to foreign markets by geographic risk.

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The reserve for loan and lease losses is maintained at a level believed to be appropriate by the Company to absorb probable losses inherent in the loan and lease portfolio. The determination of the reserve requires significant judgment reflecting the Company’s best estimate of probable loan and lease losses related to specifically identified impaired loans and leases as well as probable losses in the remainder of the various loan and lease portfolios. For purposes of determining the reserve, the Company has segmented loans and leases into classes based on the associated risk within these segments. The Company has determined that eight classes exist within the loan and lease portfolio. The methodology for assessing the appropriateness of the reserve consists of several key elements, which include: specific reserves for impaired loans, formula reserves for each business lending division portfolio including percentage allocations for special attention loans and leases not deemed impaired, and reserves for pooled homogeneous loans and leases. The Company’s evaluation is based upon a continuing review of these portfolios, estimates of customer performance, collateral values and dispositions, and assessments of economic and geopolitical events, all of which are subject to judgment and will change.

The following table shows the changes in the reserve for loan and lease losses, segregated by class, for the three months ended June 30, 2015 and 2014.

(Dollars in thousands)	Commercial and agricultural	Auto and light truck	Medium and heavy duty truck	Aircraft financing	Construction equipment financing	Commercial real estate	Residential real estate	Consumer	Total
June 30, 2015									
Reserve for loan and lease losses									
Balance, beginning of period	$11,620	$10,793	$4,364	$31,301	$7,740	$13,186	$4,115	$1,979	$85,098
Charge-offs	22	—	—	—	—	—	25	173	220
Recoveries	86	191	2	398	123	38	5	56	899
Net charge-offs (recoveries)	(64)	(191)	(2)	(398)	(123)	(38)	20	117	(679
Provision (recovery of provision)	181	461	(33)	1,141	(56)	2	(651)	(234)	811
Balance, end of period	$11,865	$11,445	$4,333	$32,840	$7,807	$13,226	$3,444	$1,628	$86,588
Ending balance, individually evaluated for impairment	$112	$—	$—	$501	$—	$38	$152	$—	$803
Ending balance, collectively evaluated for impairment	11,753	11,445	4,333	32,339	7,807	13,188	3,292	1,628	85,785
Total reserve for loan and lease losses	$11,865	$11,445	$4,333	$32,840	$7,807	$13,226	$3,444	$1,628	$86,588
Recorded investment in loans									
Ending balance, individually evaluated for impairment	$2,038	$—	$—	$7,174	$728	$9,933	$369	$—	$20,242
Ending balance, collectively evaluated for impairment	717,934	446,731	250,045	744,491	444,751	631,272	454,361	142,872	3,832,457
	$719,972	$446,731	$250,045	$751,665	$445,479	$641,205	$454,730	$142,872	$3,852,69

Total recorded investment in loans									
June 30, 2014									
Reserve for loan and lease losses									
Balance, beginning of period	$11,819	$9,656	$4,411	$34,509	$6,314	$12,609	$4,062	$1,630	$85,010
Charge-offs	213	8	—	—	—	—	27	131	379
Recoveries	307	823	99	54	59	116	65	79	1,602
Net charge-offs (recoveries)	(94)	(815)	(99)	(54)	(59)	(116)	(38)	52	(1,223
Provision (recovery of provision)	4,853	(44)	(229)	(1,476)	(55)	(372)	(166)	32	2,543
Balance, end of period	$16,766	$10,427	$4,281	$33,087	$6,318	$12,353	$3,934	$1,610	$88,776
Ending balance, individually evaluated for impairment	$4,769	$—	$—	$—	$—	$—	$159	$—	$4,928
Ending balance, collectively evaluated for impairment	11,997	10,427	4,281	33,087	6,318	12,353	3,775	1,610	83,848
Total reserve for loan and lease losses	$16,766	$10,427	$4,281	$33,087	$6,318	$12,353	$3,934	$1,610	$88,776
Recorded investment in loans									
Ending balance, individually evaluated for impairment	$22,533	$—	$—	$1,120	$1,105	$12,699	$376	$—	$37,833
Ending balance, collectively evaluated for impairment	697,693	471,080	243,358	732,074	368,650	589,622	454,469	128,756	3,685,702
Total recorded investment in loans	$720,226	$471,080	$243,358	$733,194	$369,755	$602,321	$454,845	$128,756	$3,723,53

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The following table shows the changes in the reserve for loan and lease losses, segregated by class, for the six months ended June 30, 2015 and 2014.

(Dollars in thousands)	Commercial and agricultural	Auto and light truck	Medium and heavy duty truck	Aircraft financing	Construction equipment financing	Commercial real estate	Residential real estate	Consumer loans	Total
June 30, 2015									
Reserve for loan and lease losses									
Balance, beginning of period	$11,760	$10,326	$4,500	$32,234	$7,008	$13,270	$4,102	$1,868	$85,068
Charge-offs	965	22	—	49	—	—	65	320	1,421
Recoveries	564	251	5	442	245	135	7	124	1,773
Net charge-offs (recoveries)	401	(229)	(5)	(393)	(245)	(135)	58	196	(352
Provision (recovery of provision)	506	890	(172)	213	554	(179)	(600)	(44)	1,168
Balance, end of period	$11,865	$11,445	$4,333	$32,840	$7,807	$13,226	$3,444	$1,628	$86,588
Ending balance, individually evaluated for impairment	$112	$—	$—	$501	$—	$38	$152	$—	$803
Ending balance, collectively evaluated for impairment	11,753	11,445	4,333	32,339	7,807	13,188	3,292	1,628	85,785
Total reserve for loan and lease losses	$11,865	$11,445	$4,333	$32,840	$7,807	$13,226	$3,444	$1,628	$86,588
Recorded investment in loans									
Ending balance, individually evaluated for impairment	$2,038	$—	$—	$7,174	$728	$9,933	$369	$—	$20,242
Ending balance, collectively evaluated for impairment	717,934	446,731	250,045	744,491	444,751	631,272	454,361	142,872	3,832,457
Total recorded investment in loans	$719,972	$446,731	$250,045	$751,665	$445,479	$641,205	$454,730	$142,872	$3,852,69
June 30, 2014									
Reserve for loan and lease losses									
Balance, beginning of period	$11,515	$9,657	$4,212	$34,037	$5,972	$12,406	$4,093	$1,613	$83,505
Charge-offs	228	19	—	—	2	1	43	389	682
Recoveries	686	1,055	136	112	225	155	70	167	2,606
Net charge-offs (recoveries)	(458)	(1,036)	(136)	(112)	(223)	(154)	(27)	222	(1,924

Provision (recovery of provision)	4,793	(266)	(67)	(1,062)	123	(207)	(186)	219	3,347
Balance, end of period	$16,766	$10,427	$4,281	$33,087	$6,318	$12,353	$3,934	$1,610	$88,776
Ending balance, individually evaluated for impairment	$4,769	$—	$—	$—	$—	$—	$159	$—	$4,928
Ending balance, collectively evaluated for impairment	11,997	10,427	4,281	33,087	6,318	12,353	3,775	1,610	83,848
Total reserve for loan and lease losses	$16,766	$10,427	$4,281	$33,087	$6,318	$12,353	$3,934	$1,610	$88,776
Recorded investment in loans									
Ending balance, individually evaluated for impairment	$22,533	$—	$—	$1,120	$1,105	$12,699	$376	$—	$37,833
Ending balance, collectively evaluated for impairment	697,693	471,080	243,358	732,074	368,650	589,622	454,469	128,756	3,685,702
Total recorded investment in loans	$720,226	$471,080	$243,358	$733,194	$369,755	$602,321	$454,845	$128,756	$3,723,53

Note 6. Mortgage Servicing Rights

The Company recognizes the rights to service residential mortgage loans for others as separate assets, whether the servicing rights are acquired through a separate purchase or through the sale of originated loans with servicing rights retained. The Company allocates a portion of the total proceeds of a mortgage loan to servicing rights based on the relative fair value. The unpaid principal balance of residential mortgage loans serviced for third parties was $814.57 million and $825.17 million at June 30, 2015 and December 31, 2014, respectively.

Mortgage servicing rights (MSRs) are evaluated for impairment at each reporting date. For purposes of impairment measurement, MSRs are stratified based on the predominant risk characteristics of the underlying servicing, principally by loan type. If temporary impairment exists within a tranche, a valuation allowance is established through a charge to income equal to the amount by which the carrying value exceeds the fair value. If it is later determined all or a portion of the temporary impairment no longer exists for a particular tranche, the valuation allowance is reduced through a recovery of income.

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The following table shows changes in the carrying value of MSRs and the associated valuation allowance.

(Dollars in thousands)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Mortgage servicing rights:				
Balance at beginning of period	$4,590	$4,759	$4,733	$4,844
Additions	456	246	706	447
Amortization	(385)	(310)	(778)	(596)
Sales	—	—	—	—
Carrying value before valuation allowance at end of period	4,661	4,695	4,661	4,695
Valuation allowance:				
Balance at beginning of period	—	—	—	—
Impairment (charges) recoveries	—	—	—	—
Balance at end of period	$—	$—	$—	$—
Net carrying value of mortgage servicing rights at end of period	$4,661	$4,695	$4,661	$4,695
Fair value of mortgage servicing rights at end of period	$7,342	$7,584	$7,342	$7,584

At June 30, 2015 and 2014, the fair value of MSRs exceeded the carrying value reported in the Statements of Financial Condition by $2.68 million and $2.89 million, respectively. This difference represents increases in the fair value of certain MSRs that could not be recorded above cost basis.

Mortgage loan contractual servicing fees, including late fees and ancillary income, were $0.71 million and $0.75 million for the three months ended June 30, 2015 and 2014, respectively. Mortgage loan contractual servicing fees, including late fees and ancillary income, were $1.43 million and $1.54 million for the six months ended June 30, 2015 and 2014, respectively. Mortgage loan contractual servicing fees are included in Mortgage Banking Income on the Statements of Income.

Note 7. Commitments and Financial Instruments with Off-Balance-Sheet Risk

1st Source and its subsidiaries are parties to financial instruments with off-balance-sheet risk in the normal course of business. These off-balance-sheet financial instruments include commitments to originate and sell loans and standby letters of credit. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Statements of Financial Condition. The exposure to credit loss in the event of nonperformance by the other party to the financial instruments for loan commitments and standby letters of credit is represented by the dollar amount of those instruments. The Company uses the same credit policies and collateral requirements in making commitments and conditional obligations as it does for on-balance-sheet instruments.

1st Source Bank (Bank), a subsidiary of 1st Source Corporation, grants mortgage loan commitments to borrowers, subject to normal loan underwriting standards. The interest rate risk associated with these loan commitments is managed by entering into contracts for future deliveries of loans. Loan commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The Bank issues standby letters of credit which are conditional commitments that guarantee the performance of a client to a third party. The credit risk involved in and collateral obtained when issuing standby letters of credit is essentially the same as that involved in extending loan commitments to clients. Standby letters of credit totaled $28.47 million and $26.94 million at June 30, 2015 and December 31, 2014, respectively. Standby letters of credit generally have terms ranging from six months to one year.

Note 8. Derivative Financial Instruments

Commitments to originate residential mortgage loans held for sale and forward commitments to sell residential mortgage loans are considered derivative instruments. See Note 7 for further information.

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The Company has certain interest rate derivative positions that are not designated as hedging instruments. Derivative assets and liabilities are recorded at fair value on the balance sheet and do take into account the effects of master netting agreements. Master netting agreements allow the Company to settle all derivative contracts held with a single counterparty on a net basis, and to offset net derivative positions with related collateral, where applicable. These derivative positions relate to transactions in which the Company enters into an interest rate swap with a client while at the same time entering into an offsetting interest rate swap with another financial institution. In connection with each transaction, the Company agrees to pay interest to the client on a notional amount at a variable interest rate and receive interest from the client on the same notional amount at a fixed interest rate. At the same time, the Company agrees to pay another financial institution the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. The transaction allows the client to effectively convert a variable rate loan to a fixed rate. Because the terms of the swaps with the customers and the other financial institutions offset each other, with the only difference being counterparty credit risk, changes in the fair value of the underlying derivative contracts are not materially different and do not significantly impact the Company's results of operations.
The following table shows the amounts of non-hedging derivative financial instruments.

(Dollars in thousands)	Notional or contractual amount	Asset derivatives Statement of Financial Condition classification	Fair value	Liability derivatives Statement of Financial Condition classification	Fair value
June 30, 2015					
Interest rate swap contracts	$482,862	Other assets	$8,186	Other liabilities	$8,342
Loan commitments	13,776	Mortgages held for sale	89	N/A	—
Forward contracts - mortgage loan	22,050	Mortgages held for sale	204	N/A	—
Total	$518,688		$8,479		$8,342
December 31, 2014					
Interest rate swap contracts	$459,508	Other assets	$9,125	Other liabilities	$9,302
Loan commitments	11,109	Mortgages held for sale	2	N/A	—
Forward contracts - mortgage loan	19,800	N/A	—	Mortgages held for sale	142
Total	$490,417		$9,127		$9,444

The following table shows the amounts included in the Statements of Income for non-hedging derivative financial instruments.

		Gain (loss) Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	Statement of Income classification	2015	2014	2015	2014
Interest rate swap contracts	Other expense	$41	$(7)	$22	$(1)
Interest rate swap contracts	Other income	221	103	297	195
Loan commitments	Mortgage banking income	(52)	(83)	87	27
Forward contracts - mortgage loan	Mortgage banking income	372	(266)	346	(386)
Forward contracts - foreign exchange	Other income	—	(3)	—	(4)
Total		$582	$(256)	$752	$(169)

The following table shows the offsetting of financial assets and derivative assets.

(Dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Assets Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		
				Financial Instruments	Cash Collateral Received	Net Amount
June 30, 2015						
Interest rate swaps	$ 8,458	$ 272	$ 8,186	$ —	$ —	$ 8,186
December 31, 2014						
Interest rate swaps	$ 9,492	$ 367	$ 9,125	$ —	$ —	$ 9,125

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The following table shows the offsetting of financial liabilities and derivative liabilities.

				Gross Amounts Not Offset in the Statement of Financial Condition		
(Dollars in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Liabilities Presented in the Statement of Financial Condition	Financial Instruments	Cash Collateral Pledged	Net Amount
June 30, 2015						
Interest rate swaps	$ 8,614	$ 272	$ 8,342	$ —	$ 7,994	$ 348
Repurchase agreements	122,658	—	122,658	122,658	—	—
Total	$ 131,272	$ 272	$ 131,000	$ 122,658	$ 7,994	$ 348
December 31, 2014						
Interest rate swaps	$ 9,669	$				