

1ST SOURCE CORP
Form 11-K
June 14, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 11-K
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 0-6233

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

1st SOURCE CORPORATION EMPLOYEE STOCK OWNERSHIP AND PROFIT SHARING PLAN

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

1st Source Corporation
100 N. Michigan Street
South Bend, Indiana 46601

1st Source Corporation
Employee Stock Ownership and Profit Sharing Plan

Financial Statements and Supplemental Schedule

December 31, 2016 and 2015, and the Year Ended December 31, 2016

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Report of Independent Registered Public Accounting Firm

Audit Committee and Board of Directors

1st Source Corporation Employee Stock Ownership and Profit Sharing Plan

South Bend, Indiana

We have audited the accompanying statements of net assets available for benefits of 1st Source Corporation Employee Stock Ownership and Profit Sharing Plan (Plan) as of December 31, 2016 and 2015, and the related statement of changes in net assets available for benefits for the year ended December 31, 2016. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. Our audits also included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of 1st Source Corporation Employee Stock Ownership and Profit Sharing Plan as of December 31, 2016 and 2015, and the changes in its net assets available for benefits for the year ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America.

The supplemental information in the accompanying schedule of assets (held at end of year) as of December 31, 2016, has been subjected to audit procedures performed in conjunction with the audit of the Plan's financial statements. The supplemental information is presented for the purpose of additional analysis and is not a required part of the financial statements but include supplemental information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental information is the responsibility of the Plan's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information in the accompanying schedule, we evaluated whether the supplemental information, including its form and content, is presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the supplemental information in the accompanying schedule is fairly stated, in all material respects, in relation to the financial statements as a whole.

/s/ BKD, LLP

Fort Wayne, Indiana

June 14, 2017

1st Source Corporation
Employee Stock Ownership and Profit Sharing Plan
Statements of Net Assets Available for Benefits

	December 31	
	2016	2015
Assets		
Noninterest-bearing cash	\$359,299	\$12,736
Investments at fair value:		
Mutual funds	129,108,516	103,612,566
1st Source Corporation common stock	55,920,572	41,881,792
1st Source Bank common trust funds	12,053,087	25,829,974
Total investments at fair value	197,082,175	171,324,332
Receivables:		
Notes receivable from participants	1,239,298	1,261,595
Employer contributions	4,707,569	4,541,132
Total receivables	5,946,867	5,802,727
Total assets	203,388,341	177,139,795
Liabilities		
Excess contributions payable	8,630	32,540
Trade payables	317,232	22,997
Total liabilities	325,862	55,537
Net assets available for benefits	\$203,062,479	\$177,084,258
See accompanying notes to the financial statements.		

1st Source Corporation
 Employee Stock Ownership and Profit Sharing Plan
 Statement of Changes in Net Assets Available for Benefits
 Year Ended December 31, 2016

Additions

Investment income:

Net appreciation in fair value of investments	\$28,117,530
Interest and dividends	3,009,426
	31,126,956

Interest income on notes receivable from participants 59,007

Contributions:

Employer – cash	3,282,003
Employer – noncash	1,425,566
Participants	5,083,777
Rollover	517,942
	10,309,288

Total additions 41,495,251

Deductions

Benefits paid to participants	15,381,446
Administrative expenses	135,584
Total deductions	15,517,030

Net increase in net assets available for benefits 25,978,221

Net assets available for benefits:

Beginning of year	177,084,258
End of year	\$203,062,479

See accompanying notes to the financial statements.

Notes to Financial Statements

Note 1. Description of the Plan

The following description of the 1st Source Corporation Employee Stock Ownership and Profit Sharing Plan (the Plan) provides general information about the Plan's provisions. Participants should refer to the plan document and summary plan description for a more complete description of the Plan's provisions, copies of which may be obtained from the plan sponsor.

General

The Plan is a defined contribution plan offered to all employees of 1st Source Corporation (1st Source) and its subsidiaries who have at least 90 consecutive days of service. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

The Executive Compensation and Human Resources Committee is responsible for the general administration of the Plan. 1st Source Corporation Retirement Plan Committee is the Plan Administrator. 1st Source Bank is the trustee of the Plan. Swerdlin & Company is the record-keeper of the Plan.

Eligible participants are automatically enrolled in the Plan once they have completed 90 consecutive days of service unless they affirmatively decline to participate. The Plan has an automatic pre-tax deferral of 6% of compensation if a participant does not elect a different compensation deferral percentage.

Contributions

Participants are permitted to defer, through salary deduction, up to 100% of their annual eligible compensation on a pre-tax basis, up to \$18,000, as defined by Internal Revenue Service (IRS) limits. In addition, participants age 50 or older may elect to defer up to an additional \$6,000, called catch-up contributions. Participants direct their contributions into various investment options offered by the Plan. The Plan currently offers 10 different fund options, one of which is 1st Source common stock.

The Plan provides for the following 1st Source contributions:

Matching Contribution — contribution is discretionary. The first 4% of a participant's eligible compensation contributed to the Plan is matched 100%, and the next 2% of a participant's eligible compensation contributed to the Plan is matched 50%.

Fixed Profit Sharing Contribution — an eligible participant will receive 2% of their eligible annual compensation.

Discretionary Profit Sharing Contribution — 1% of 1st Source's net profit is awarded to eligible participants and determined annually by the Board of Directors.

Regular Contribution — contribution is discretionary and determined annually by the Board of Directors.

All 1st Source contributions may be made in either cash or shares of 1st Source common stock. Cash contributions are invested in a diversified portfolio of funds as directed by the 1st Source Corporation Retirement Plan Committee.

Participant Accounts

The Plan provides participants with an Employee Stock Ownership Plan (ESOP) account and a 401(k) account. The ESOP account is made up of participant and 1st Source contributions invested in 1st Source common stock and cash not yet invested in common stock. The 401(k) account consists of participant and 1st Source contributions not invested in 1st Source common stock, including amounts previously included in the ESOP account that a participant elected to diversify. Participants may elect to have dividends paid on the 1st Source common stock held in their ESOP account either in cash or remain in the Plan and be reinvested in additional shares of 1st Source common stock.

Each participant's account is credited with the participant's contribution and an allocation of (a) 1st Source's contribution and (b) the Plan's earnings. Allocations are based on participant compensation, deferred percentage and account balances, as defined. A participant is entitled to the benefit that can be provided from the participant's vested account balance.

Vesting

Vesting of the 1st Source Employer Contributions, including match, fixed profit sharing, discretionary profit sharing, and regular contributions, is based on years of credited service. A credited year of service is at least 1,000 hours worked in a 12-month period. A participant is 10%, 20%, 40%, 60%, or 100% vested after completing one, two, three, four, or five or more years of credited service, respectively. A participant can also become 100% vested upon reaching early retirement age, normal retirement age, death or disability.

Forfeitures

Upon termination of employment, participants with less than five years of credited service will forfeit their non-vested balances. Forfeitures of non-vested terminated participants' accounts are used to pay plan expenses and offset employer contributions. Unallocated forfeitures amounted to \$92,831 and \$69,779 as of December 31, 2016 and 2015, respectively. Forfeitures of \$135,584 were used to pay Plan expenses for 2016.

Notes Receivable from Participants

Participants may borrow from the Plan amounts not to exceed the lesser of one-half of the participant's vested balance from his or her 401(k) account or \$50,000. The loans are collateralized by the participant's vested account balance and bear interest at fixed rates of 2% above 1st Source Bank's (a wholly owned subsidiary of 1st Source) prime rate. The loans are repayable over five years except for loans used to acquire or construct a participant's principal residence, in which case the repayment term may exceed five years but no more than fifteen years.

Payment of Benefits

On termination of service, a participant generally receives a lump-sum amount equal to the value of his or her vested account balance.

As a result of the Economic Growth and Tax Relief Reconciliation Act of 2001, contributions by employees and the employer were closed to the Money Purchase Account and benefits became and remain subject to joint survivor and annuity requirements.

Hardship withdrawals are allowed for participants incurring an immediate and heavy financial need, as defined by the Plan. Hardship withdrawals are strictly regulated by the IRS, and a participant must exhaust all available loan options prior to requesting a hardship withdrawal.

Administrative Expenses

The Plan's administrative expenses are paid by either the Plan or the Company, as provided by the Plan's provisions. Administrative expenses paid by the Plan include record-keeping fees. Expenses relating to purchases, sales, or transfers of the Plan's investments are charged to the particular investment fund to which the expenses relate.

Plan Termination

Although it has not expressed any intention to do so, 1st Source has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of plan termination, participants will become fully vested in their accounts.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

Use of Estimates

The financial statements of the Plan are prepared in conformity with United States generally accepted accounting principles (GAAP), which require management to make estimates and assumptions that affect amounts in the financial statements, accompanying notes, and supplemental schedule. Actual results could differ from those estimates.

Payment of Benefits

Benefits are recorded when paid.

Notes Receivable From Participants

Notes receivable from participants represent participant loans that are recorded at their unpaid principal balance. Interest income on notes receivable from participants is recorded when it is earned. No allowance for credit losses has been recorded as of December 31, 2016 or 2015. If a terminated participant ceases to make loan repayments and the plan administrator deems the participant loan to be a distribution, the terminated participant's vested balance is reduced and a benefit payment is recorded.

Excess Contributions Payable

Amounts payable to participants for contributions in excess of amounts allowed by the IRS are recorded as a liability with a corresponding reduction to contributions. The Plan distributed the excess contributions for the 2016 Plan year to the applicable participants prior to March 15, 2017.

Investment Valuation and Income Recognition

Investments held by the Plan are stated at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). See Note 4 for further discussion and disclosures related to fair value measurements.

U.S. GAAP establishes a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used in the measurement are observable or unobservable. Observable inputs reflect market-driven or market-based information obtained from independent sources, while unobservable inputs reflect estimates about market data. The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market data.

The hierarchy established gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The Plan's investments are classified within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement.

The three levels of the fair value hierarchy and its applicability to the Plan's investments are described below:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Quoted prices for similar assets or liabilities or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data. Level 2 includes investments valued at quoted prices adjusted for legal or contractual restrictions specific to the security.

Level 3 - Pricing inputs are unobservable for the asset or liability. That is, inputs that reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability. Level 3 includes private portfolio investments that are supported by little or no market activity.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis.

Dividends are recorded on the ex-dividend date. Net appreciation/depreciation includes the Plan's gains and losses on investments bought and sold as well as held during the year.

Note 3. Nonparticipant-Directed Investments

Nonparticipant-directed investments are put into participants' accounts by the employer (match, profit sharing, and 2%). Employees do not get to select or direct into which funds or investments the employer contributions are deposited.

Information about the net assets and the significant components of the changes in net assets relating to the nonparticipant-directed investments is as follows:

	December 31,	
	2016	2015
Net assets		
1st Source Corporation common stock	\$446	\$—
Mutual funds	46,631,963	36,605,312
1st Source Bank common trust funds	323	6,567,533
Total net assets - nonparticipant-directed investments	\$46,632,732	\$43,172,845
		Year Ended
		December 31,
		2016
Changes in net assets		
Investment income		\$ 1,399,189
Contributions		3,737,510
Net appreciation in fair value of investments		2,170,329
Benefits paid to participants		(3,847,141)
Total changes in net assets - nonparticipant-directed investments		\$ 3,459,887

Note 4. Fair Value Measurements

Securities traded on a national securities exchange, securities traded in the over-the-counter market, and listed securities are valued on a daily basis at the last reported closing price. The fair value of mutual funds is stated at the net asset value (NAV) as reported by the funds on the last business day of the plan year. Common trust funds are valued using the NAV as the practical expedient. The 1st Source Bank Employee Low Risk Fund is designed to deliver safety and stability by preserving principal and accumulating earnings. The 1st Source Bank Employee Benefit International Equity Fund is designed to provide a diversified portfolio of international equity investments which are subject to equity market risk, currency risk, and other risks associated with foreign investments.

Participant-directed redemptions have no restrictions. The fair value of these funds has been estimated based on the fair value of the underlying investments as reported by the issuer of the funds.

The following table summarizes the Plan's investments that are measured at fair value by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
1st Source Corporation common stock	\$55,920,572	\$ —	—	—\$55,920,572
Mutual funds	129,108,516	—	—	129,108,516
Total assets in the fair value hierarchy	185,029,088	—	—	185,029,088
Common trust funds measured at net asset value ⁽¹⁾	—	—	—	12,053,087
Balance at December 31, 2016	\$185,029,088	\$ —	—	—\$197,082,175
1st Source Corporation common stock	\$41,881,792	\$ —	—	—\$41,881,792
Mutual funds	103,612,566	—	—	103,612,566
Total assets in the fair value hierarchy	145,494,358	—	—	145,494,358
Common trust funds measured at net asset value ⁽¹⁾	—	—	—	25,829,974
Balance at December 31, 2015	\$145,494,358	\$ —	—	—\$171,324,332

(1) In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statement of net assets available for benefits.

No transfers between levels occurred during 2016 or 2015.

Note 5. Reconciliation of Financial Statements to the Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500:

	December 31,	
	2016	2015
Net assets available for benefits per the financial statements	\$203,062,479	\$177,084,258
Less: Amounts allocated to withdrawing participants	(24,713)	(23,100)
Net assets available for benefits per the Form 5500	\$203,037,766	\$177,061,158

The following is a reconciliation of benefits paid to participants per the financial statements for the year ended December 31, 2016 to the Form 5500:

Benefits paid to participants per the financial statements	\$15,381,446
Add: Amounts allocated to withdrawing participants at December 31, 2016	24,713
Less: Amounts allocated to withdrawing participants at December 31, 2015	(23,100)
Benefits paid to participants per the Form 5500	\$15,383,059

Amounts allocated to withdrawing participants are recorded on the Form 5500 for benefit payments that have been processed and approved for payment prior to year-end but not paid as of that date.

Note 6. Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market volatility, and credit risks. Due to the level of risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

Note 7. Related-Party Transactions

The Plan holds units of common/collective trust funds managed by 1st Source Bank, the trustee of the Plan. The Plan also invests in the common stock of 1st Source. These transactions qualify as party-in-interest transactions; however, they are exempt from the prohibited transactions rules under ERISA. During 2016, the Plan received \$975,518 in common stock cash dividends from 1st Source.

Note 8. Tax Status

The Plan has received a determination letter from the IRS dated May 2, 2014, stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code (the Code) and, therefore, the related trust is exempt from taxation. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualified status. The plan administrator believes that the Plan, including the amendments effective January 1, 2016 related to changes in rate of deferrals, limitation due to hardship withdrawals and investment window for restricted group, is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan is qualified and the related trust is tax-exempt.

Supplemental Schedule

1st Source Corporation
Employee Stock Ownership and Profit Sharing Plan

Schedule H, Line 4i - Schedule of Assets
(Held at End of Year)

EIN: 35-1068133 Plan Number: 003

December 31, 2016

Identity of Issuer, Borrower, Lessor, or Similar Party	Description of Investment	Cost	Current Value
Common stock			
* 1st Source Corporation	1,252,140 shares	\$23,332,906	\$55,920,572
Mutual funds			
Wasatch-1st Source Income Fund	2,457,630 shares	24,924,769	24,674,607
Boston Partners All Cap Value Instl	981,355 shares	17,969,798	23,042,205
Oakmark International Fund	617,435 shares	12,602,749	14,015,776
Vanguard Wellington Admiral Fund	221,212 shares	13,889,756	14,920,731
Fidelity Contrafund	148,879 shares	12,238,039	14,658,649
Vanguard 500 Index Fund	131,168 shares	21,235,906	27,095,360
Sterling Capital Stratton Small Cap Value Fund - I	94,944 shares	5,700,388	7,913,613
T. Rowe Price Mid-Cap Growth Fund	36,990 shares	2,881,701	2,787,575
		111,443,106	129,108,516
Common trust funds			
* 1st Source Bank Employee Benefit Low Risk Fund	388,306 units	11,634,846	12,053,087
		11,634,846	12,053,087
* Loans to participants	Varying maturity dates through 2031 with interest rates ranging from 5.25% to 6.75%.	—	1,239,298
		\$146,410,858	\$198,321,473

* Indicates party-in-interest to the Plan.

SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized.

1st SOURCE CORPORATION EMPLOYEE STOCK OWNERSHIP AND PROFIT SHARING
PLAN

By the Plan Administrator 1st Source Corporation

DATE June 14,
2017

/s/ DAN H. LIFFERTH

Dan H. Lifferth, Senior Vice President