

1ST SOURCE CORP  
Form DEF 14A  
March 18, 2015

United States  
Securities and Exchange Commission  
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934

Filed by the registrant  x

Filed by a Party other than the Registrant  o

Check the appropriate box:

- o Preliminary Proxy Statement
- o Confidential, for use of the Commission Staff Only (as permitted by Rule 14a-6(e) (2))
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material under Sec.240.14a-12

1st Source Corporation  
(Name of Registrant as Specified in its Charter)

---

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

---

(2) Aggregate number of securities to which transaction applies:

---

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

---

(4) Proposed maximum aggregate value of transaction:

---

(5) Total fee paid:

---

- o Fee paid previously with preliminary materials.

Edgar Filing: 1ST SOURCE CORP - Form DEF 14A

- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of filing.

(1) Amount Previously paid:

---

(2) Form, Schedule or Registration Statement No.:

---

(3) Filing Party:

---

(4) Date Filed:

---

---

Notice of Annual Meeting of Shareholders and Proxy Statement

To the Shareholders of 1st Source Corporation:

The Annual Meeting of Shareholders of 1st Source Corporation will be held at the 1st Source Center, 4th Floor Boardroom, 100 North Michigan Street, South Bend, Indiana 46601, on April 23, 2015, at 10:00 a.m. local time, for the purpose of considering and voting upon the following matters:

1. Election of Directors. Election of four directors for terms expiring in 2018.
  2. Other Business. Such other matters as may properly come before the meeting or any adjournment thereof.
- Shareholders of record at the close of business on February 18, 2015 are entitled to vote at the meeting.

By Order of the Board of Directors,  
John B. Griffith  
Secretary

South Bend, Indiana  
March 17, 2015

---

Please date and sign the proxy and return it promptly. If you do attend the meeting, you may, nevertheless, vote in person and revoke a previously submitted proxy.

---

---

1st SOURCE CORPORATION

P.O. Box 1602 South Bend, Indiana 46634

Proxy Statement

This Proxy Statement is furnished in connection with 2015 Annual Meeting of Shareholders of 1st Source Corporation (“1st Source” or “the Company”).

When and where is the Annual Meeting? April 23, 2015, at 10:00 a.m. local time, at the 1st Source Center, 100 North Michigan Street, 4th Floor Boardroom, South Bend, Indiana 46601.

Who may vote at the meeting? Shareholders of record at the close of business on February 18, 2015, will be eligible to vote at the Annual Meeting.

How many shares are outstanding? There were 24,840,401 shares of our common stock outstanding on the record date. The voting securities of 1st Source consist only of Common Stock. Each shareholder is entitled to one vote for each share. Cumulative voting is not authorized.

What is the required vote? A plurality of the shares voted at the annual meeting is required for election of directors. The Company knows of no other proposals expected to be presented at the meeting. Such a proposal, if any, would be approved if votes in favor of such proposal exceed those cast against.

How are abstentions and “non-votes” counted? Abstentions on properly executed proxy cards and shares not voted by brokers and other entities holding shares on behalf of beneficial owners (“broker non-votes”) will be counted for determining a quorum at the meeting. However, abstentions and broker non-votes will not affect the voting results on those matters for which the shareholder has abstained or the broker has not voted.

Who Is Soliciting Proxies? This solicitation is being made by the Board of Directors of 1st Source. The cost of solicitation of proxies will be borne by 1st Source.

How will proxies be solicited? In addition to the use of mails, proxies may be solicited through personal interview, electronic media, telephone, and facsimile by directors, officers and regular employees of 1st Source without additional remuneration therefor.

How may I revoke my proxy? Shareholders may revoke their proxies at any time prior to the meeting by giving written notice to John B. Griffith, Secretary, 1st Source Corporation, Post Office Box 1602, South Bend, Indiana 46634, or by voting in person at the meeting.

When were these materials provided? The approximate date for making available this Proxy Statement and the form of proxy to shareholders is March 17, 2015.

Voting Securities and Principal Holders Thereof

Beneficial owners of more than 5% of the Common Stock outstanding at February 18, 2015:

Name and Address	Voting Authority			Investment Authority			Total Beneficial Ownership	
	Sole	Shared	None	Sole	Shared	None	Amount	% of Class
1st Source Bank(1) 100 North Michigan Street South Bend, IN 46601	6,531,817	—	4,661,775	6,531,817	—	4,661,775	6,531,817	26.30%
Christopher J. Murphy III (2) 100 North Michigan Street South Bend, IN 46601	1,311,761	850,019	—	1,311,761	850,019	—	2,161,780	8.70%
Dimensional Fund Advisors LP (3) Palisades West, Building One,	1,911,421	—	65,624	1,977,045	—	—	1,977,045	7.96%

6300 Bee Cave Road  
Austin, Texas, 78746

(1) 1st Source Bank ("1st Source Bank" or "the Bank"), 1st Source's subsidiary bank, owns no securities for its own account. These shares are registered in 1st Source Bank's name or its nominee as fiduciary. 1st Source Bank reports that these shares are owned by many separate accounts. These amounts include 1,325,497 shares held by participants in the 1st Source Corporation Employee Stock Ownership and Profit Sharing Trust for which the Bank has no voting or investment authority except to the extent imputed by ERISA. These amounts also include 5,241,133 shares held in trusts for the benefit of Ernestine M. Raclin, her children and grandchildren, of which 1st Source Bank is the trustee and has sole voting and dispositive power. These amounts also include 1,043,804 shares held in various trusts for the benefit of Christopher J. Murphy III, his wife and children, of which 1st Source Bank is the trustee and has sole voting and dispositive power. Mr. Murphy disclaims beneficial ownership of such shares.

Due to the structure of various trusts, the amounts discussed in this footnote include 77,066 shares owned indirectly by both Mrs. Raclin and Mr. Murphy. Mrs. Raclin is the retired Chairman of the Board of 1st Source and the mother-in-law of Mr. Murphy. Also, these amounts do not include the shares reported for Christopher J. Murphy III in this table.

(2) These amounts include 1,311,761 shares held by Mr. Murphy or Mr. Murphy's wife, for which they respectively have sole voting and investment authority. These amounts also include 850,019 shares held in trusts or limited partnerships for the ultimate benefit and ownership of Mrs. Raclin's children, grandchildren and their spouses as to which Mr. Murphy or Mr. Murphy's wife share voting authority.

(3) As reported in Form 13G filed February 5, 2015, Dimensional Fund Advisors LP, in its role as investment advisor for various clients, had sole dispositive and/or voting power of the shares.

Interest of Certain Persons in Matters to be Acted Upon

The Board of Directors knows of no matters to come before the Annual Meeting other than the matters referred to in this Proxy Statement. However, if any other matters should properly come before the meeting, the persons named in the enclosed proxy intend to vote in accordance with their best judgment. No director, nominee for election as director, or executive officer of 1st Source has any special interest in any matter to be voted upon other than election to the Board of Directors. Directors, executive officers, and voting trustees have indicated that they intend to vote for all directors as listed in Proposal Number 1.

Proposal Number 1: Election of Directors

The Board of Directors is divided into three (3) groups of directors whose terms expire at different times. At the 2015 Annual Meeting, four directors are to be elected for terms expiring in 2018 or until the qualification and election of a successor. Directors will be elected by a plurality of the votes cast. Instructions to withhold authority will result in a nominee for director receiving fewer votes but will not count as votes "against" the nominee. Shares not voted by brokers are not considered "votes cast".

The following information is submitted for each nominee as well as each director and each non-director executive officer continuing in office. Tracy D. Graham is not standing for re-election to the Board of Directors. Wellington D. Jones III will be retiring from the Board of Directors coincident with the 2015 Annual Meeting.

**THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" THE ELECTION OF EACH NOMINEE.**

All directors have demonstrated the ability and willingness to participate in and contribute to the Board and its committee activities. Each is actively involved in civic, community and business affairs. Such involvement is noted below with a representative sample of the boards or organizations with which they are involved.

DIRECTOR NOMINEES				Beneficial Ownership of Equity Securities <sup>(2)</sup>	
Name	Age	Principal Occupation <sup>(1)</sup>	Year in Which Directorship Assumed	Common Stock	% of Class

Terms Expiring in April, 2015 (April, 2018 if reelected)

Allison N. Egidi <sup>(3)</sup>	33	Director of Development, University of Virginia, College and Graduate School of Arts & Sciences; prior thereto, Major Gifts Officer, University of Virginia, College and Graduate School of Arts & Sciences and Vice President, BMO Capital Markets (financial services)	2011	19,731	«
---------------------------------	----	--	------	--------	---

7 years of experience in securitization in BMO Capital Markets' U.S. Securitization Group.

Expertise in credit analysis and structuring securitization facilities.

Serving as a volunteer on the University of Virginia Children's Hospital Keswick Horse Show Planning Committee.

Served as a Development Board member for the Comer Children's Hospital at the University of Chicago and as a professional Board member for PAWS Chicago.

B.A. in Economics and American Politics from the University of Virginia.

Craig A. Kapson	64	President, Jordan Automotive Group (automotive dealerships)	2004	31,006	«
-----------------	----	---	------	--------	---

34 years of business experience as President of Jordan Automotive Group. As head of a second-generation business that has been locally based for over 65 years, Mr. Kapson contributes long-term perspective, current knowledge, and extensive contacts in a community in which the Company does business.

Expertise in retail and fleet automobile sales and general knowledge of retailing and family-owned businesses.

Serves as a member of the Ford Direct Dealer Advisory Board.

Served as a member of the Ford Motor Company National Dealer Fleet Advisory Council.

Served as an executive board member of WNIT Public Television and executive board member of the South Bend Symphony Association.

B.A. in Economics from Olivet College.

Name	Age	Principal Occupation <sup>(1)</sup>	Year in Which Directorship Assumed	Beneficial Ownership of Equity Securities <sup>(2)</sup> Common Stock	% of Class
John T. Phair	65	President, Holladay Properties (real estate development)	2004	17,868	«

17 years of business experience as President of Holladay Properties and a total of 36 years in the real estate industry. Mr. Phair also is the managing partner of approximately 75 commercial partnerships and 13 joint ventures. Prior to joining Holladay Properties, Mr. Phair spent seven years in the mortgage-banking field. As head of a locally based business, Mr. Phair contributes current knowledge and extensive contacts in a community in which the Company does business.

Expertise in real estate development as well as general knowledge of the construction, hospitality, finance, and real estate industries.

Qualifies as an audit committee financial expert under SEC guidelines.

Serves or served on the boards of the Boys & Girls Club of St. Joseph County, Family & Children's Center, WNIT Public Television, the South Bend Civic Theatre, the Alliance of Indiana (IU Kelley School of Business), Project Future and the Villages of Indiana.

B.A. in Political Science from Marquette University.

Mark D. Schwabero	62	President, Chief Operating Officer, and Director, Brunswick Corporation (recreation products); prior thereto, President, Mercury Marine (marine propulsion systems)	2004	7,085	«
-------------------	----	---	------	-------	---

11 years of business experience with Brunswick Corporation. Mr. Schwabero became its President and Chief Operating Officer in 2014 after serving as President of Mercury Marine and President of Mercury Outboards. Mr. Schwabero also has 29 years experience as a senior executive in the automotive and commercial vehicle/manufacturing industries.

Detailed knowledge of these industries as well as manufacturing and general management expertise.

Qualifies as an audit committee financial expert under SEC guidelines.

Former director of National Exchange Bank & Trust.

Serves on the Advisory Committee of The Ohio State University Center for Automotive Research.

Past Chairman of the National Marine Manufacturers Association.



B.S. and M.S. in Industrial and Systems Engineering from The Ohio State University.

OTHER INCUMBENT DIRECTORS

Terms Expiring in April, 2016

Daniel B. Fitzpatrick	57	Chairman and Chief Executive Officer, Quality Dining, Inc. (quick service and casual dining restaurant operator)	1995	32,982	«
-----------------------	----	--	------	--------	---

33 years of business experience as the founder, Chairman and Chief Executive Officer of Quality Dining, Inc. As head of a locally headquartered, multi-concept restaurant company with operations located in seven states, Mr. Fitzpatrick contributes long-term perspective, current knowledge, and extensive contacts in communities in which the Company does business.

Expertise in the restaurant industry and general knowledge of food services retailing.

Qualifies as an audit committee financial expert under SEC guidelines.

Serves as Past Chairman of the Holy Cross College Board of Trustees and board member for Women's Care Center Foundation. Mr. Fitzpatrick has served with nearly two dozen other community organizations.

B. A. in Business Administration from the University of Toledo.

Name	Age	Principal Occupation <sup>(1)</sup>	Year in Which Directorship Assumed	Beneficial Ownership of Equity Securities <sup>(2)</sup>	
				Common Stock	% of Class
Najeeb A. Khan	61	Chairman and Chief Executive Officer, Interlogic Outsourcing, Inc. and affiliated companies (payroll processing, tax filing and human resources administration services)	2011	6,409	«

32 years of business experience as the founder, Chairman and Chief Executive Officer of Interlogic Outsourcing, Inc., as former Chairman and Chief Executive Officer of CNA Unisource, Inc. and as former Vice President of Commercial Services for Midwest Commerce Data Corporation, a wholly owned subsidiary of NBD Midwest Commerce Bank. As head of a locally owned business, Mr. Khan contributes current knowledge and extensive contacts in several communities where many manufacturing and retail customers are located.

Expertise in technology, payroll, human resources, outsourcing services and entrepreneurial activities.

Qualifies as an audit committee financial expert under SEC guidelines.

Formerly served as a member of the Investment Committee of the Community Foundation of St. Joseph County and member of the Finance Committees for WNIT Public Television and Holy Cross College.

B.S. in Mathematics/Computer Science from Grand Valley State University.

Christopher J. Murphy IV <sup>(4)</sup>	45	Owner and Executive Director, Catharsis Productions, LLC (training programs)	2011	105,780	«
---	----	--	------	---------	---

15 years of business experience as co-founder, owner and Executive Director of Catharsis Productions.

Contributes general business knowledge and entrepreneurial, government contracting and creative marketing and development experience.

Serves as co-chairperson on MEN (Men Endorsing Non-Violence) Illinois state subcommittee, consultant to Lambda Chi Alpha fraternity and volunteer with West Suburban Montessori School.

B.A. in Liberal Studies, Communications and Theatre from the University of Notre Dame. Currently pursuing an M.B.A. through the University of Notre Dame.

Terms Expiring in April, 2017

Vinod M. Khilnani	62	Retired (2013) Executive Chairman of the Board, 2013 CTS Corporation (electronics components and accessories); prior thereto, Chairman and Chief Executive Officer and President and Chief		3,622	«
-------------------	----	--	--	-------	---

Executive Officer, CTS Corporation; Director and Chairman of the Compensation Committee, Materion Corporation; Director, Esco Technologies, Inc. and Gibraltar Industries, Inc.

35 years of business experience, including 12 years as Executive Chairman, Chairman, President, Chief Executive Officer and Chief Financial Officer of CTS Corporation as well as 18 years in various senior executive finance and global leadership positions with Cummins, Inc.

Expertise in global operations as well as extensive skills in finance, mergers and acquisitions, international business and manufacturing, corporate strategy and corporate governance.

Qualifies as an audit committee financial expert under SEC guidelines.

Certified Public Accountant (inactive) and Certified Management Accountant.

B.A. in Business Administration from Delhi University and an M.B.A. in Finance from the University of New York at Albany.

Name	Age	Principal Occupation <sup>(1)</sup>	Year in Which Directorship Assumed	Beneficial Ownership of Equity Securities <sup>(2)</sup>	
				Common Stock	% of Class
Rex Martin	63	Chairman and Chief Executive Officer, NIBCO, Inc. (copper and plastic plumbing parts manufacturer)	1996	7,403	«

29 years as Chairman and Chief Executive Officer of NIBCO, Inc., a family-owned business. As head of Elkhart, Indiana-based NIBCO, Inc., Mr. Martin contributes long-term perspective, current knowledge, and extensive contacts in a community where the Company does business.

Expertise in the copper and plastic plumbing parts manufacturing industry and general knowledge of sales and marketing.

Qualifies as an audit committee financial expert under SEC guidelines.

Serves as Lead Director.

Serves as Founder and Director of the Rex and Alice A. Martin Foundation. Mr. Martin also is a board member of the Park Foundation of Elkhart, Indiana.

B.A. in English from Indiana University and an M.B.A. from the Massachusetts Institute of Technology.

Christopher J. Murphy III	68	Chairman of the Board and Chief Executive Officer, 1st Source and 1st Source Bank	1972	2,161,780 <sup>(5)</sup>	8.70%
---------------------------	----	---	------	--------------------------	-------

Over 40 years of banking and business experience, including serving as a Director and/or President and Chief Executive Officer of both 1st Source Corporation or 1st Source Bank for 40 years. Mr. Murphy contributes long-term perspective, current knowledge, and extensive contacts in all communities in which the Company does business. Prior to 1st Source, Mr. Murphy worked at Citibank, and while in college, for the Office of the Comptroller of the Currency.

Extensive knowledge of 1st Source and 1st Source Bank and general knowledge in the finance/banking industry, investments, insurance and venture capital.

Serves as a director of Data Realty, LLC, representing 1st Source's investment in this provider of managed data center and other technology related services.

Serves on numerous boards including those of the Medical Education Foundation (serves as the citizen's advisory board of Indiana University Medical School at Notre Dame), the Indiana State Chamber of Commerce, the Indiana Commission for Higher Education, the Corporate Partnership for Economic Growth, Beacon Health Ventures and Memorial Home Care (part of Beacon Health Ventures, Inc.). Also serves as a member of the Beacon Health System Audit Committee.

Edgar Filing: 1ST SOURCE CORP - Form DEF 14A

B.A. in Government from the University of Notre Dame, a J.D. from the University of Virginia Law School and an M.B.A. from the Harvard University School of Business.

Timothy K. Ozark	65	Chairman and Chief Executive Officer, Aim Financial Corporation (mezzanine funding and leasing) and Chairman, CFWF, Inc. (seafood processor and commercial fishing company)	1999	19,354	«
------------------	----	---	------	--------	---

23 years of business experience as founder, Chairman and Chief Executive Officer of Aim Financial Corporation, a mezzanine lender to privately-held companies. Also President and CEO of TKO Finance Corporation, a lender to financial services and manufacturing companies and Chairman of CFWF, Inc., a seafood processing and fishing company located in California.

Expertise in mezzanine funding, lending-leasing and general knowledge of finance.

Qualifies as an audit committee financial expert under SEC guidelines.

Serves as a member of the Visiting Committee to the Division of Biological Sciences and the Pritzker School of Medicine for The University of Chicago and on the Board of Directors for a number of privately held companies.

B.S. in Business Administration from the University of Minnesota and an M.B.A. from St. Cloud State University.

Name	Age	Principal Occupation <sup>(1)</sup>	Beneficial Ownership of Equity Securities <sup>(2)</sup>	
			Common Stock	% of Class
Executive Officers of the Company (Non-Directors)				
Jeffrey L. Buhr	55	Executive Vice President and Chief Credit Officer, 1st Source Bank (since 2014); prior thereto, Senior Vice President and Chief Credit Officer, 1st Source Bank	46,353	«
John B. Griffith	57	Executive Vice President, General Counsel and Secretary, 1st Source Corporation and 1st Source Bank (since 2011); prior thereto, Senior Vice President, General Counsel and Secretary, 1st Source Corporation and 1st Source Bank	48,956	«
Allen R. Qualey	63	President and Chief Operating Officer, Specialty Finance Group, 1st Source Bank (since 1997)	146,871	«
James R. Seitz	62	President, 1st Source Corporation and 1st Source Bank (since 2014); prior thereto, Executive Vice President, 1st Source Corporation and President, 1st Source Bank and Executive Vice President and Senior Vice President, 1st Source Bank	56,557	«
Andrea G. Short	52	Executive Vice President, Treasurer and Chief Financial Officer, 1st Source Corporation and 1st Source Bank (since 2013); prior thereto, Senior Vice President and Controller and Vice President and Controller, 1st Source Bank	35,796	«
Steven J. Wessell	65	Executive Vice President, 1st Source Bank (since 2011); prior thereto, Senior Vice President, 1st Source Bank	68,236	«
All Directors and Executive Officers as a Group (19 persons)			2,815,789	11.34%

« Represents holdings of less than 1%.

(1)The principal occupation represents the employment for the last five years for each of the named directors and executive officers. Directorships presently held or held within the last five years in other corporations with publicly registered securities are also disclosed.

(2)Based on information furnished by the directors and executive officers as of February 18, 2015.

(3)Ms. Egidi is the niece of Mr. Murphy and his wife

(4)Mr. Murphy IV is Mr. Murphy's son.

(5)See footnotes (1) and (2) to the Voting Securities and Principal Holders Thereof table above.

#### Transactions with Related Persons

The Audit Committee of 1st Source's Board of Directors is responsible, under the terms of that Committee's charter, for reviewing and disclosure of related party transactions that are material to 1st Source's consolidated financial statements or otherwise require disclosure under Item 404 of SEC Regulation S-K.

Banking Transactions — Directors and officers of 1st Source and their affiliates were customers of, and had transactions with, 1st Source and its subsidiaries in the ordinary course of business during 2014 and in compliance with applicable federal and state laws and regulations. Additional transactions are expected to take place in the ordinary course of

business in the future. All outstanding loans and commitments were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons not related to the Company and did not involve more than the normal risk of collectability, or present other unfavorable features. Credit underwriting procedures followed were no less stringent than those for comparable transactions with other borrowers. 1st Source's Loan Policy requires prior approval by a majority of the Board of Directors of any extension of credit to an executive officer, director, principal shareholder or persons related to any of the foregoing if aggregate extensions of credit to such executive officers, directors, principal shareholders or other persons exceed \$500,000. The aggregate of loans to executive officers may not exceed \$100,000 except for loans 1) to finance the education of the executive officer's children, 2) to purchase, construct, maintain or improve a residence owned by the executive officer and secured by a first lien, or 3) secured by a perfected security interest in bonds, notes, certificates of indebtedness or other obligations fully guaranteed by the United States, cash or a cash-equivalent. Loans to executive officers are 1) reported to the 1st Source Board at its next regularly scheduled meeting, 2) preceded by the submission of a current, detailed financial statement, and 3) made subject to the condition that the loan will become due if the officer becomes indebted to any other financial institution or financial institutions in an aggregate amount greater than \$100,000 (excluding the loans of a type noted in 1), 2) and 3) in the preceding sentence). Finally, within 10 days of the date that the aggregate indebtedness to other financial institutions exceeds \$100,000 (excluding first mortgage debt, children's educational loans and loans secured by the types of collateral described above), an executive officer must make a written report to the Board.

Other Transactions — The Company has previously reported its investment in Data Realty, LLC and investments by 1st Source Bank in Data Realty Northern Indiana, LLC (DRNI). DRNI is a managed data center and network interconnection cooperative servicing business in 1st Source Bank's headquarters region. 1st Source Bank is a customer of DRNI and the Bank's primary operating system hardware is located in the data center owned and operated by DRNI. In 2014, 1st Source Bank paid an aggregate of \$192,723 for services provided by DRNI.

Data Realty, LLC is the managing partner of DRNI. Directors Khan and Tracy D. Graham have respective interests in Data Realty, LLC as previously reported in the “Transactions with Related Persons” section of the Company’s 2012, 2013 and 2014 proxy statements. Mr. Murphy is a Director of Data Realty, LLC representing 1st Source’s interests. In 2014, the Company made an additional investment of \$200,000 in Data Realty, LLC to increase its ownership percentage and provide funding for Data Realty LLC's financing activities.

**Board Committees and Other Corporate Governance Matters**

In January 2004, the Board of Directors adopted and has since periodically updated the 1st Source Corporate Governance Guidelines. The Corporate Governance Guidelines are designed to ensure and document the Company’s high standards for corporate governance. The Corporate Governance Guidelines are in accordance with the listing rules of the NASDAQ Stock Market and rules of the Securities and Exchange Commission. The Corporate Governance Guidelines are available on the Company’s website at [www.1stsource.com](http://www.1stsource.com).

**Director Independence** — The Board assesses each director’s independence in accordance with the Corporate Governance Guidelines. The Corporate Governance Guidelines define an independent director as one who has no relationship to the Company that would interfere with the exercise of independent judgment in carrying out responsibilities as a director of the Company and who is otherwise “independent” under the listing rules of the NASDAQ Stock Market. The Board has determined, after careful review, that the following eight of the thirteen current members of the Board are independent directors: Mr. Fitzpatrick, Mr. Kapson, Mr. Khan, Mr. Khilnani, Mr. Martin, Mr. Ozark, Mr. Phair and Mr. Schwabero. With Messrs. Graham and Jones leaving the Board coincident with the 2015 Annual Meeting, and assuming the election of the nominees, the Board will have eight of eleven members that qualify as independent.

**Board Committees** — 1st Source and 1st Source Bank share the following permanent committees made up of board members of both organizations. Executive, Governance and Nominating, Audit, and Executive Compensation and Human Resources Committee members are appointed annually after the Annual Meeting of Shareholders.

Committee	Members	Functions	2014 Meetings
Executive <sup>(2)</sup>	Christopher J. Murphy III Rex Martin Daniel B. Fitzpatrick Timothy K. Ozark <sup>(1)</sup>  Mark D. Schwabero	Act for the Board of Directors between meetings subject to certain statutory limitations. Give guidance to management regarding actions taken as part of its strategic operating or budget plans.  Provide guidance on acquisitions, divestures or other transactions that need to be negotiated in private and may ultimately require review and approval by the full Board.	5 <sup>(3)</sup>
Governance and Nominating <sup>(2)</sup>	Rex Martin <sup>(1)</sup> Daniel B. Fitzpatrick Timothy K. Ozark Mark D. Schwabero	Serve as senior committee with oversight responsibility for effective governance of the Company. Identify and monitor the appropriate structure of the Board. Select Board members for committee assignments. Identify, evaluate, recruit and select qualified candidates for election, re-election or appointment to the Board. See also "Governance and Nominating Committee Information" below.	3 <sup>(4)</sup>



Audit <sup>(2)</sup>	<p>Mark D. Schwabero<sup>(1)</sup></p> <p>Daniel B. Fitzpatrick</p> <p>Najeeb A. Khan</p> <p>Vinod M. Khilnani</p> <p>Timothy K. Ozark</p> <p>John T. Phair</p>	<p>Select the Company's independent registered public accounting firm.</p> <p>Review the scope and results of the audits by the internal audit staff and the independent registered public accounting firm.</p> <p>Review the adequacy of the accounting and financial controls and the risk management process and present the results to the Board of Directors with respect to accounting practices and internal procedures. Make recommendations for improvements in internal procedures.</p> <p>Review and oversight of the Company's legal and compliance risks, including adherence to ethical standards and bank regulatory requirements as well as other operational risk areas.</p> <p>See also "Report of the Audit Committee" below.</p>	6
Executive Compensation and Human Resources <sup>(2)</sup>	<p>Daniel B. Fitzpatrick<sup>(1)</sup></p> <p>Rex Martin</p> <p>Timothy K. Ozark</p> <p>Mark D. Schwabero</p>	<p>Determine compensation for senior management personnel, review performance of the Chief Executive Officer and oversee the Company's stock plans.</p> <p>Establish wage and benefit policies for the Company and its subsidiaries.</p> <p>Review human resources guidelines, policies and procedures.</p> <p>See also the "Executive Compensation and Human Resources Committee Report" below.</p>	6

(1) Committee chairman

(2) The charter of the committee is available at [www.1stsource.com](http://www.1stsource.com).

(3) 2014 meetings shown are those of the former Executive and Governance Committee. The new Executive Committee structure went into effect October 23, 2014.

(4) 2014 meetings shown are those of the former Nominating Committee. The new Governance and Nominating Committee structure went into effect October 23, 2014. The Committee is comprised entirely of independent directors.

**Board Leadership Structure** — Under 1st Source’s Corporate Governance Guidelines, the Governance and Nominating Committee is responsible for reviewing and making recommendations to the Board regarding the Board’s leadership structure, including whether one individual should serve as Chairman of the Board and Chief Executive Officer and whether the Board should have a Lead Director. The Governance and Nominating Committee reviews the structure of the Board on at least an annual basis and monitors and makes recommendations to the Board on an ongoing basis on other matters concerning Board policies and corporate governance. Additionally, the Executive Compensation and Human Resources Committee of the Board reviews the performance of the Chief Executive Officer on an annual basis. The Board believes it is in the best interest of 1st Source to have Mr. Murphy serve as Chairman of the Board and Chief Executive Officer. The reasons for this include:

- Mr. Murphy’s past performance in both roles and his continuing ability to serve in both;
- The need for decisive leadership and clear accountability in facing 1st Source’s challenges and opportunities;
- Mr. Murphy’s extensive specialized knowledge regarding those challenges and opportunities as well as his large ownership position; and
- The fact that composition of the Board includes a majority of independent directors, providing an appropriate amount of independent board oversight.

The incumbent chairman of the Governance and Nominating Committee, Mr. Martin, presently serves as the Lead Director under the Corporate Governance Guidelines. The Lead Director will normally chair any meetings of the Board at which the Chairman or Vice Chairman of the Board is not present or from which, for whatever reason, each has recused himself. The Lead Director has the power to call meetings of the Board of Directors and to set agendas for meetings. The Lead Director also chairs the executive sessions of the independent directors, which occurred 4 times in 2014.

**Board Role in Risk Oversight** — The Board exercises oversight of the risk management of 1st Source through the functions of its committees as described above. Additionally, Board members exercise oversight responsibilities by serving on the Loan and Funds Management Committee and/or the Trust and Investment Committee of 1st Source Bank.

The Loan and Funds Management Committee generally oversees credit, interest rate and liquidity risks. Its responsibilities include:

- Establishing the credit policy for the Bank;
- Reviewing Bank lending activities, including approvals of loans to new or existing customers of total commitments in excess of stated amounts;
- Conducting quarterly reviews of the adequacy of the allowance for loan and lease losses and loan concentrations as compared to established limits; and
- Reviewing the Bank’s Funds Management Division in its investment activities, relationships with securities dealers, relationships with other depository institutions, administration of 1st Source’s asset/liability management and liquidity functions and other activities.

The Trust and Investment Committee generally oversees fiduciary risks associated with 1st Source Bank’s trust and investment services. Its responsibilities include:

- Exercising general supervision over the fiduciary activities of the Personal Asset Management Group and the Retirement Plan Services Division;
- Assigning the administration of those fiduciary powers to such officers, employees and committees as the Committee deems appropriate;
- Directing and reviewing the actions of all individuals or committees used by the Bank in the exercise of the fiduciary powers and services offered to clients;
- Implementing and periodically evaluating appropriate policies, practices and controls to promote high quality fiduciary administration; and
- Overseeing appropriate policies and procedures to ensure the Bank makes appropriate investments.

Finally, the Board receives quarterly reports from the Strategic Deployment Committee, an executive-level management committee chaired by Mr. Murphy that, among other things, oversees and evaluates risks, controls and the risk management processes for 1st Source and 1st Source Bank.

Meetings of the Board of Directors and Directors' Compensation — The Board of Directors held 6 meetings in 2014. The only incumbent director attending fewer than 75% of the aggregate total meetings of the Board of Directors and all committees of the Board of 1st Source on which he or she served was Wellington D. Jones III. Mr. Jones' absences from two of the six meetings of the Board of Directors were excused. As 1st Source's Vice Chairman, Mr. Jones also attended all or portions of four of five Executive and Governance Committee meetings, five of six Executive Compensation and Human Resources Committee meetings, and two of three Nominating Committee meetings in an advisory, non-voting capacity. He similarly attended all ten Loan and Funds Management Committee and three of five Trust and Investment Committee meetings.

Directors receive fees in the amount of \$23,000 per year, plus \$1,000 per Board meeting and \$1,000 per committee meeting attended (\$1,500 per Audit Committee meeting attended). Committee chairpersons also receive an additional \$500 per meeting attended (an additional \$2,000 per Audit Committee meeting attended and an additional \$1,000 per Executive Compensation and Human Resources Committee meeting attended). Total fees paid in 2014 were \$722,500.

Annual Meeting Attendance — Per the Company's Corporate Governance Guidelines, directors are expected to attend the Annual Meeting of Shareholders. The Chairman of the Board presides at the Annual Meeting, and the Board of Directors holds one of its regular meetings in conjunction with the Annual Meeting of Shareholders. All members of the Board at the time of the Company's 2014 Annual Meeting of Shareholders except Daniel B. Fitzpatrick (whose absence was excused) attended that meeting.

Code of Ethical Conduct — The Board of Directors has adopted a Code of Ethical Conduct for Financial Managers, which is available on the Company's website at [www.1stsource.com](http://www.1stsource.com). The Code of Ethical Conduct for Financial Managers constitutes a code of ethics as defined in Section 406(c) of the Sarbanes-Oxley Act of 2002 and applies to the Chief Executive Officer, Chief Financial Officer, Controller and other individuals performing similar accounting or financial reporting functions for the Company.

Shareholder Communications — Communications to the Board of Directors from shareholders are welcomed. All written communications may be submitted through the Company's web site at [www.1stsource.com](http://www.1stsource.com), by e-mail at [shareholder@1stsource.com](mailto:shareholder@1stsource.com), or by U.S. mail at 1st Source Corporation, 100 North Michigan Street, South Bend, Indiana, 46601, Attn: Chairman, Governance and Nominating Committee, or Attn: Corporate Secretary. The recipient of any such communication shall share it with the Chairman of the Governance and Nominating Committee who shall either (i) relay it to the full Board or an appropriate committee chairperson, or (ii) where he feels that the communication is not appropriate to relay to the Board, provide a copy of the communication and an indication of his proposed disposition to the General Counsel, or another independent director, either of whom may forward the communication to any other directors if he deems it prudent or appropriate to do so. The Chairman of the Governance and Nominating Committee shall forward all recommendations for Board nominees submitted by shareholders to the members of the Committee.

#### Governance and Nominating Committee Information

The Board of Directors formed an independent Governance and Nominating Committee in January 2004. The charter of the Governance and Nominating Committee was amended in October 2014 to reflect its additional governance responsibilities and is available at [www.1stsource.com](http://www.1stsource.com). See also the description of the Committee under “Board Committees and Other Governance Matters” above. All members of the Governance and Nominating Committee (see “Board Committees” above) comply with the independence requirements of the NASDAQ Stock Market listing rules. The purpose of the Governance and Nominating Committee is to identify, evaluate, recruit and select qualified candidates for election, re-election or appointment to the Board. The Governance and Nominating Committee may use multiple sources for identifying and evaluating nominees for directors, including referrals from current directors and executive officers and recommendations by shareholders. Candidates recommended by shareholders will be evaluated in the same manner as candidates identified by any other source except that the Governance and Nominating Committee also may consider the number of shares held and the length of time the shareholder-recommended candidate has invested in the Company. In order to give the Governance and Nominating Committee adequate time to evaluate recommended director candidates, shareholder recommendations should be submitted in writing at least 120 days prior to the next Annual Meeting to be held on or before April 28, 2016. Nominations should be addressed to the attention of the Chairman, Governance and Nominating Committee, c/o 1st Source Corporation.

The Governance and Nominating Committee will select new or incumbent nominees or recommend to the Board replacement nominees considering the following criteria:

- Whether the nominee is under the age of 72;
- Qualifications, including judgment, skill, capability, conflicts of interest, business experience and technical/professional/educational background;
- Personal qualities and characteristics, accomplishments and reputation in the business community;
- Whether the nominee currently lives in one of the Company’s markets;
- Current knowledge and contacts in the communities or industries in which the Company does business;
- Current knowledge in one or more of the Company’s lines of business;
- Ability and willingness to commit adequate time, or in the case of incumbent directors, past participation and contribution, to Board and committee matters;
- Whether the nominee’s knowledge and experience is complementary to, or duplicative of, that of the other members of the Board;
- If applicable, whether the nominee would be deemed “independent” under listing rules of the NASDAQ Stock Market and Securities and Exchange Commission rules;
- Whether the nominee is qualified and likely to remain qualified to serve under the Company’s By-laws and Corporate Governance Guidelines;
- Diversity of viewpoints, background, experience and other demographics; and
- Such other factors the Committee deems relevant.

The Governance and Nominating Committee assesses its own performance, including its effectiveness in achieving a diverse Board, and reviews its charter and recommends any proposed changes every other year coincident with the bi-annual self-assessment of the full Board.

#### Report of the Audit Committee

The Audit Committee oversees 1st Source’s financial reporting process on behalf of the Board of Directors, retains and oversees the Company’s independent registered public accounting firm, approves all audit and non-audit services provided by the independent registered public accounting firm and oversees the Company’s compliance with ethics policies and the Company’s management of legal, regulatory and other operational risks. The Board of Directors has adopted a charter for the Audit Committee to set forth its authority and responsibilities. All of the members of the Committee are independent as defined in the listing rules of the NASDAQ Stock Market and Securities and Exchange Commission rules. The Board has determined that Daniel B. Fitzpatrick, Najeeb A. Khan, Vinod M. Khilnani, Timothy K. Ozark, John T. Phair and Mark D. Schwabero qualify as audit committee financial experts, as defined in the rules of the Securities and Exchange Commission.

The Committee reviewed the audited financial statements in the Annual Report with management. The Committee also reviewed the financial statements with 1st Source's independent registered public accounting firm, which is responsible for expressing an opinion on the conformity of those audited financial statements with accounting principles generally accepted in the United States. The Committee also considered, with the independent registered public accounting firm, the firm's judgments as to the quality, not just the acceptability, of 1st Source's accounting principles and such other matters as are required to be discussed with the Committee under PCAOB Auditing Standard No. 16, "Communication with Audit Committees." In addition, the Committee has discussed with the independent registered public accounting firm the firm's independence from management and 1st Source, including the matters in the written disclosures required by PCAOB Ethics and Independence Rule 3526, "Communication with Audit Committees Concerning Independence", and considered the compatibility of non-audit services provided by the independent registered public accounting firm to 1st Source with the firm's independence.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2014 for filing with the Securities and Exchange Commission.

Audit Committee

Mark D. Schwabero, Chairman

Daniel B. Fitzpatrick

Najeeb A. Khan

Vinod M. Khilnani

Timothy K. Ozark

John T. Phair

## Compensation Discussion & Analysis

### Compensation Oversight

The Executive Compensation and Human Resources Committee of the Board of Directors, comprised entirely of independent directors, administers the Company's executive compensation program. The responsibilities of the Executive Compensation and Human Resources Committee are described in its charter and include:

- Determine compensation for Named Executive Officers (the executives required by SEC rules to be named in this proxy statement, or "NEOs") and approve it for other senior management personnel;
- Review performance of the Chief Executive Officer;
- Establish wage and benefit policies for the Company;
- Review general human resources guidelines, policies and procedures;
- Oversee the Company's stock and benefit plans;
- Review incentive plans and attest that they do not encourage inappropriate risk taking; and
- Conduct annual self-assessment.

The Executive Compensation and Human Resources Committee determines the compensation for NEOs and reviews and either adjusts or approves it for other senior management personnel after reviewing the Company's performance against its annual operating plan and its intermediate and long-term tactical and strategic plans. The Committee also reviews market data and peer and industry information and considers the recommendations of the Chief Executive Officer with regard to cash and stock incentives under the Company's Executive Incentive Plan and the other incentive plans for officers in the Company as described below.

### Compensation Philosophy and Program

The Company's compensation philosophy rests on the core principle that its executive officers and key employees are all in partnership with each other and with the Company's shareholders to achieve success over the long-term. Guided by this core principle, the Company's compensation program can be summarized as follows:

The Company succeeds best over the long-term when the executive officers and key employees are motivated to work together in this partnership as long-term owners themselves. The Company's compensation program is designed to compensate executive officers and key employees fairly and continuously reinforce a partnership of long-term owners.

The program is designed to encourage consistent high-level performance with particular emphasis on building long-term customer relationships. The Company believes that a strategic focus on building deep, long-term customer relationships is the foundation for strong, sustainable, long-term performance. Increasing such relationships over the long-term optimizes shareholder value through growth of high quality net revenues.

The program is based on pay-for-performance with performance evaluated relative to both internal business plans, and tactical and strategic objectives and to the results of the Company's peer groups.

The program provides competitive compensation opportunities that are consistent with practices of our peers with adjustments made for individual variance in skill and contribution.

- The program is designed to encourage a measured approach to growth that includes necessary attention to understanding and managing the risks of the business.

The program rewards growth of customer relationships and sound risk management through compensation that is balanced between base salaries and performance-based incentive compensation.

The program's incentive compensation is also balanced between cash bonuses and equity awards, with both linked to the Company's overall performance on a short-term, intermediate-term and long-term basis.

The program also promotes long-term share ownership, with all executive officers expected to maintain a significant investment in the Company and meet stock ownership guidelines.

### Company Performance

The Committee evaluated the Company's 2014 performance during early 2015. The Company generally met its quantitative and qualitative objectives for 2014. Highlights included:

- The Company achieved a record net income of \$58.1 million in 2014. This was a 5.7% increase over 2013.
- The Company earned \$2.39 per share which also was a record and an increase of 7.2% over 2013.

The Company achieved a return on average assets of 1.21% which placed it in the upper third of all of its peer comparisons (see Performance Compared to Peers below).

- The Company grew its average loans outstanding to \$3.64 billion, a 6% growth over the prior year.
- The Company refurbished six banking centers and opened three new banking centers on time and on budget. Mobile bill pay, mobile deposit capture and tablet functionality all were implemented or improved in 2014. The Company's online apps achieved a 4.5 star rating exceeding many of its national and regional/local competitors.
- The Company continued development of succession management in a variety of positions.
- The Company had minimal net charge-offs at 0.06% of average net loans and leases outstanding.
- The Company ended the year with an improved nonperforming assets ratio of 1.13% and a reserve for loan and lease losses of 2.31%.
- The Company continued 27 years of dividend increases.

Edgar Filing: 1ST SOURCE CORP - Form DEF 14A

To understand the Company's performance in relative terms the Committee reviews it compared to a number of other peer groups variously reflecting the Company's geographic markets, its business line focus, and its size and complexity. These include:

In-Market Peers	Location	Midwest Peers	Location	National C&I Peers	Location
1st Source Corporation	South Bend, IN	1st Source Corporation	South Bend, IN	1st Source Corporation	South Bend, IN
Chemical Financial Corporation	Midland, MI	BancFirst Corporation	Oklahoma City, OK	Amarillo National Bancorp, Inc	Amarillo, TX
Crystal Valley Financial Corporation	Middlebury, IN	Chemical Financial Corporation	Midland, MI	American Chartered Bancorp, Inc	Schaumburg, IL
First Bancshares, Inc	Whiting, IN	Community Trust Bancorp, Inc	Pikeville, KY	CNB Financial Corporation	Clearfield, PA
Horizon Bancorp	Michigan City, IN	Enterprise Financial Group	Clayton, MO	Cullen/Frost Bankers, Inc	San Antonio, TX
Independent Alliance Banks, Inc	Fort Wayne, IN	F.N.B. Corporation	Hermitage, PA	Discount Bancorp, Inc	New York, NY
Lakeland Financial Inc	Warsaw, IN	First Bancshares, Inc	Whiting, IN	First American Bank Corporation	Elk Grove Village, IL
Mutualfirst Financial Inc (MFB)	Muncie, IN	First Busey Corporation	Urbana, IL	Hancock Holding Company	Gulfport, MS
Star Financial Group, Inc	Fort Wayne, IN	First Commonwealth Financial Corp	Indiana, PA	Heartland Financial	Dubuque, IA
		First Financial Bancorp	Cincinnati, OH	Independent Bankers Financial Corp	Irving, TX
		First Financial Corporation	Terre Haute, IN	MB Financial, Inc	Chicago, IL
		First Merchants Corporation	Muncie, IN	Pinnacle Financial Partners	Nashville, TN
		First Midwest Bancorp, Inc	Itasca, IL	PrivateBancorp	Chicago, IL
		German American Bancorp, Inc	Jasper, IN	Servisfirst Bancshares, Inc	Birmingham, AL
		Intrust Financial Corporation	Wichita, KS	Stark Bank Group, LTD	Fort Dodge, IA
		Johnson Financial Group, Inc	Racine, WI	Sterling Bancorp	New York, NY
		Lakeland Financial Corporation	Warsaw, IN	Texas Capital Bancshares, Inc	Dallas, TX
		Mainsource Financial Group, Inc	Greenburg, IN	UMB Financial Corporation	Kansas City, MO
		Old National Bancorp	Evansville, IN	Univest Corporation of Pennsylvania	Souderton, PA
		Park National Corporation	Newark, OH	W.T.B. Financial Corporation	Spokane, WA
		Wintrust Financial Corporation	Lake Forest, IL		

The Committee compared the Company's performance for the first three quarters of 2014 to its selected peer groups using ratios including those shown below. The Company continued to show consistent financial performance superior to most peers while maintaining stable credit quality and a strongly reserved position. Peer group amounts shown are



the median or average as indicated and the Company's ranking in the group, with a 1 ranking indicating the best result:

	1st Source Sept 2014 YTD	1st Source Dec 2014 YTD	In-Market Peer Group (9 members) Sept 2014 YTD Median	Midwest Peer Group (21 members) Sept 2014 YTD Median	National Commercial & Industrial Concentration Peer Group (20 members) Sept 2014 YTD Median	National \$3 to \$10 Billion Assets Peer Group (132 members) Sept 2014 YTD Average <sup>(1)</sup>
Return on average total assets	1.20%	1.21%	0.91% 3	0.99% 5	0.94% 4	0.93% 32
Return on average common equity	9.62%	9.65%	8.45% 4	9.04% 8	9.18% 9	8.15% 48
Net interest margin on a tax-equivalent basis	3.59%	3.59%	3.59% 5	3.60% 12	3.60% 11	3.59% 66
Net charge-offs to average net loans and leases outstanding	0.02%	0.06%	0.13% 1	0.18% 2	0.20% 1	0.15% 27
Nonaccrual loans and leases, restructured loans and other real estate to loans and leases and other real estate <sup>(2)</sup>	1.04%	1.24%	1.54% 1	1.70% 3	1.08% 9	2.19% 33
Reserve for loan and lease losses to net loans and leases outstanding	2.39%	2.31%	1.52% 1	1.22% 2	1.31% 4	1.31% 12
Noninterest income to average assets <sup>(3)</sup>	1.27%	1.27%	1.03% 4	1.21% 10	1.03% 7	1.04% 37
Noninterest expense to average assets <sup>(3)</sup>	2.73%	2.83%	2.90% 3	2.90% 6	2.59% 12	2.95% 58
Efficiency ratio <sup>(3)</sup>	58.3%	60.6%	62.6% 2	64.1% 3	61.9% 9	66.7% 30

(1) As reported in 1st Source's September 2014 Bank Holding Company Performance Report.

(2) This is a ratio shown on the Bank Holding Company Performance Report selected to facilitate peer comparisons and different from the nonperforming assets ratio mentioned in the bullet points at the beginning of this section.

(3) Noninterest income and expense computed net of operating lease depreciation.

## Components of Compensation and 2014 Compensation Decisions

The following table summarizes the components of compensation the Company provides to its NEOs and other senior management personnel:

Compensation Component	Frequency	Criteria	Form(s) of Payment	Restrictions	Term of Holding
Salary	Annual	Qualifications, responsibilities and performance	Cash	None	None
Executive Incentive Plan (EIP)	Annual	Weighted corporate, group and individual performance goals	Cash and book value stock	Book value stock subject to forfeiture over a five-year period based on employee remaining with the Company and the Company meeting earnings growth or ROA criteria	Book value stock generally required to be held until retirement. Limited exceptions for up to 50% of stock beginning seven years following lapse of forfeiture period but subject to minimum stock ownership requirements
Long-Term Executive Incentive Plan	Every three years	Weighted corporate financial goals for the third year of the three-year planning period and average of individual annual awards for the three-year planning period	Cash and market value stock	Market value stock subject to forfeiture over a five-year period based on employee remaining with the Company and the Company remaining profitable	Subject to NEO accumulating required minimum stock holdings
1998 Performance Compensation Plan (1998 Plan)	Annual	Company net income and Committee's determination of success of strategic initiatives embedded in Company's long-term plans using specific operating and financial metrics	Cash and/or stock as the Committee determines	Market value stock subject to forfeiture over a five-year period based on employee remaining with the Company and the Company remaining profitable	Subject to NEO accumulating required minimum stock holdings
1982 Restricted Stock Award Plan	Discretionary	Discretionary	Market value stock	Market value stock subject to forfeiture over a two to ten-year period based on employee remaining with the	Subject to NEO accumulating required minimum stock holdings

Company and in  
some cases the  
attainment of  
individual, group or  
Company goals

Each element of compensation is discussed in more detail below. The Committee reviews the salary and incentive history for each NEO.

#### Base Salaries

##### Why we pay this component.

Annual base salaries are designed to provide 1st Source executives with a basic level of cash compensation that is competitive in view of their qualifications, responsibilities and performance. Executive salaries are administered under the 1st Source Salary Administration Program applicable to all exempt employees. Through this program, each exempt job is graded under direction of the Human Resources Division and placed in a salary range with a midpoint targeted for the 50<sup>th</sup> percentile of the market range. Management monitors and re-calibrates the job grades and salary ranges by regularly evaluating market pay for particular positions as openings occur, as jobs change or as managers raise questions about the competitiveness of the pay for certain jobs. In addition, management periodically studies the competitiveness of its salary structure (ranges and job grades) by reference to market and industry information from a variety of sources, including Pearl Mayer and Compdata Surveys/Dolan Technologies Corporation. The Company also from time to time engages outside consultants to review its compensation programs to ensure that they are competitive and reflect market realities. No outside consultants were engaged during 2014.

##### How we determine the amount.

For the NEOs, the Executive Compensation & Human Resources Committee annually evaluates base salaries and total compensation by reference to the same sources used for the Company's Salary Administration Program. It also reviews the public information available on compensation paid to NEOs of peer organizations. The Committee reviews information for the CEO and the CFO compared to its Midwest peer group (see list above under Company Performance), a nationwide peer group of banking companies with a concentration of commercial and industrial loans (see list above under Company Performance) and a nationwide peer group of banking companies with \$3 billion to \$10 billion in assets. The CEO's salary is also compared to a nationwide peer group of publicly traded banking companies of all sizes compiled by the American Banker. The Committee uses the peer group data as a point of reference and one of several factors in setting base salaries and other components of compensation for the NEOs. If any component of compensation for the NEOs varies significantly from the median of those in our peer group, then the Committee considers the circumstances (e.g. tenure, experience, historical performance) and whether an adjustment to one or more components of compensation is warranted.

Increases to base salaries are considered annually. Management evaluates market conditions and proposes a salary performance grid that provides the range of authorized merit increases for each level of performance rating in each quadrant of the applicable salary ranges. The Executive Compensation & Human Resources Committee reviews, adjusts and approves the proposed grid each year. All of the NEOs, including the Chief Executive Officer, are eligible to receive annual salary increases approved under the Salary Administration Program.

An exempt employee's base salary will increase based on his or her position in the salary range and individual performance rating determined through the annual performance review process. Performance ratings are based on a scale of 1 to 5 with a 3 rating representing performance that meets expectations.

The Committee applies the salary performance grid used for all exempt employees when determining base salary increases for Mr. Murphy and the other NEOs. The Committee evaluates Mr. Murphy's performance each year looking at, among other factors, the Company's return on equity, its absolute earnings, and the overall performance of the Company relative to its annual budget plan and long-term strategic plan approved by the Board of Directors. His responsibilities also include representing the Company to its various constituencies, for its community engagement, and for ensuring the development of a culture of client service, long-term financial performance, teamwork, corporate integrity, and long-term success. Based on Mr. Murphy's 2014 performance, the Committee approved a 2.8% increase in Mr. Murphy's base salary in early 2015.

Mr. Murphy evaluates the performance of the other NEOs and makes recommendations for their annual increases to the Committee. The President of the Company, Mr. Seitz, also contributes to the evaluation of the other NEOs besides himself. The progression of increases in base salary for each of the NEOs is shown in the Summary Compensation Table below. Mr. Seitz and Ms. Short received larger increases in 2014 to recognize their promotions and contributions and to bring their salaries closer to the market median.

#### Annual Incentive Awards Under the EIP

##### Why we pay this component.

The EIP is designed to reward the NEOs and other participants for performance with a long-term emphasis. Annual incentive awards achieve this balance with payment of equal amounts of cash and stock. The annual cash awards provide participants with immediate recognition of strong, annual performance. Annual matching awards of book value stock provide participants with the opportunity to build and increase the value of their ownership during the course of a long career with the Company. The value of this stock only grows if the Company continues to perform. Also, a long-term holding requirement for those shares further establishes alignment between the long-term benefit to the participants and the interests of our shareholders. The Company has chosen book value stock as the primary form of incentive stock because book value is the one value that members of management directly affect by their individual and collective decisions. Earnings of the Company are either added to the book value per share or paid out as dividends on all outstanding shares (including book value shares whether or not still subject to forfeiture). In this way, book value more closely reflects the real economic value of the Company and is not subject to fluctuations in the stock market that are unrelated to performance of the Company. Inappropriate risk-taking is discouraged through the five year forfeiture period of book value share awards. Inappropriate risk-taking is further discouraged through restrictions on the sale of book value shares that, with limited exceptions, require recipients to hold the shares until retirement and then sell them back to the Company at the then book value, with the purchase price payable in installments over a five year period. The limited exceptions allow executives, subject to the Committee's approval, to sell back to the Company up to 50% of those book value shares for which the risk of forfeiture has been lapsed for seven or more years and only for the purchase of a personal residence or second home, college education tuition or financial hardship. The Company believes that equity-based compensation using book value stock under the EIP ties participants' economic incentives directly to the long-term, substantive economic performance of the Company. It encourages them to make sound business decisions that will grow the Company carefully over time and strengthen its financial position and should discourage decisions designed only for short-term personal gain. This decision-making for the long-term is reinforced as these stock awards become a significant portion of a participant's net worth over time.

##### How we determine the amount.

Awards under the EIP are determined annually following the close of the fiscal year based on performance vs. a series of metrics selected and weighted for each participant at the beginning of the year. The EIP offers participants the potential for an annual cash award and a long-term stock award.

Annual Cash Awards: Each participant under the EIP is assigned a "partnership level" percentage that is the starting point for determining his or her annual cash award. Partnership level percentages range from 4.25% to 15% of the salary range midpoint assigned by the Committee for purposes of computing the EIP or base salary of a participant. For 2014, the partnership level percentage of the NEOs was 15% of base salary for Mr. Murphy and 10% of base salary for Ms. Short and Messrs. Griffith, Seitz and Qualey. The "base bonus" for each NEO participant is equal to the participant's base salary multiplied by the relevant partnership share percentage.

That dollar amount is further adjusted up or down by the “Company Performance Factor.” The Company Performance Factor is 2.5 times the percentage by which actual net income for the year exceeded (or missed) budgeted net income with a maximum upward adjustment of 25%. The Committee is authorized to make adjustments to reported net income for purposes of determining the Corporate Performance Factor. Historically, the Committee has done so when, in the Committee’s judgment, the reported net income included unusual or one-time items that distorted the true substantive or normalized earnings of the Company. The Committee chose to use the Company’s reported net income of \$58.069 million without adjustment to calculate the 2014 Company Performance Factor. For 2014, the Company Performance Factor was 2.9%.

For each individual, the base bonus after adjustment for the Company Performance Factor is further adjusted up or down between 0% and 300% based upon the participant’s performance against a set of corporate, group and individual performance goals established at the beginning of the fiscal year. Target amounts are scored at 150% of weighting for staff personnel while they are scored at 200% for sales, credit and line management personnel. For example, if the Company achieves a corporate-level goal exactly at target and the goal is weighted for the individual at 10%, a staff person’s result is scored as 15% of their base salary or salary range midpoint assigned for EIP purposes while a sales, credit or line person’s result is scored as 20% of their base salary or salary range midpoint assigned for EIP purposes.

The corporate-level financial performance goals for each of the NEOs in 2014 included a combination of the following depending upon the NEO's role and responsibilities:

Objective	Minimum	Target	Maximum	Actual
Return on assets	0.95%	1.18%	1.35%	1.21%
Return on common equity	9.00%	9.39%	11.00%	9.65%
Expense to revenue ratio	61.00%	58.99%	56.00%	60.62%
Growth in average assets	3.00%	5.93%	8.25%	4.32%
Average 30-day delinquency ratio	1.00%	0.60%	0.20%	0.48%
Year-end nonperforming assets	1.50%	1.10%	0.40%	1.13%
Net charge offs and other credit-related losses to average loans, leases, repossessed assets and other real estate	0.50%	0.22%	0.10%	0.03%
Other strategic growth metrics	87% of Target	Target	125% of Target	144% of Target

The corporate financial performance goals assigned to each of the NEOs and the weightings of corporate, group and individual performance goals for each of the NEOs were as follows:

Objective	Mr. Murphy	Mr. Seitz	Ms. Short	Mr. Griffith	Mr. Qualey
<b>Corporate Financial Performance Goals</b>					
Return on assets	55%	5%	10%	10%	2%
Return on common equity	—	5%	10%	10%	2%
Expense to revenue ratio	15%	8%	15%	15%	2%
Growth in average assets	—	7%	10%	10%	2%
Average 30-day delinquency ratio	—	—	—	—	2%
Year-end nonperforming assets	—	5%	—	—	2%
Net charge offs and other credit-related losses to average loans, leases, repossessed assets and other real estate	15%	5%	—	—	3%
Other strategic growth metrics	15%	15%	5%	5%	5%
Group financial performance goals	—	30%	30%	25%	80%
Individual qualitative goals <sup>(1)</sup>	—	20%	20%	25%	—
Total weighting	100%	100%	100%	100%	100%

(1) These are different for each NEO depending on his or her areas of responsibility. They include:

Whether or not the NEO has completed timely reviews of employees for whom he or she is responsible;

The extent to which the NEO has supported/enhanced our sales efforts;

The level of teamwork encouraged and practiced by the NEO with peers, subordinates, and colleagues across the Company;

The NEO's management of expenses and creativity in increasing productivity;

Training of subordinates and others across the Company in areas for which he or she serves as the subject matter expert;

Active participation in the development of leadership and succession candidates throughout the Company;

Active participation in risk management and mitigation;

Active support of targeted growth initiatives;

Active embrace of and participation in development of lean initiatives in areas of responsibility and across the Company; and

Active and supportive participation in the Company's strategic planning process.

For 2015 the Committee is considering adding one or more corporate financial goals based on the Company's performance relative to its peers.

In assessing performance against these performance goals, the Committee considers quantitative and qualitative factors, and ultimately uses its judgment when determining the amount and terms of individual awards. However, in

the calculation of Mr. Murphy's award, his award was first calculated based upon quantitative factors in order to comply with IRS Code Section 162(m). Then the Committee has the authority to consider qualitative factors to reduce the amount of the award to Mr. Murphy. The qualitative factors the Committee considers to adjust awards include:

- The recommendations of Mr. Murphy with respect to the achievement of group and individual performance goals of the other NEOs and all other participants in the EIP.
- An analysis of competitive marketplace compensation data as described above;
- An analysis of the Company's performance compared to its peer groups as described above;
- An analysis of the Company's performance compared to its overall quantitative and qualitative goals;
- The executive's level of responsibility and ability to influence the Company's performance;
- The executive's level of experience, skills and knowledge;
- The need to retain and motivate highly talented executives;
- Corporate governance considerations related to executive compensation; and
- The Company's current business environment, objectives and strategy.

For 2014, Mr. Murphy received the award as computed based upon quantitative factors.

Annual cash awards: These are paid following the Committee's approval of the awards. For the NEOs, the Committee approved cash awards for 2014 performance as follows:

Mr. Murphy	\$250,000	Mr. Griffith	\$59,400
Mr. Seitz	\$64,600	Mr. Qualey	\$63,850
Ms. Short	\$54,200		

These amounts are shown on the 2014 lines of the "Non-Equity Incentive Compensation Plan" column of the Summary Compensation Table below.

Annual Book Value Stock Awards: The amount of the annual cash award under the EIP is matched with an equal amount of book value stock that is subject to forfeiture ratably over a five-year period in the event the Company fails to achieve designated annual performance hurdles or the participant's employment terminates. For 2014, the Committee chose a minimum annual net income or EPS growth requirement or a minimum annual return on assets as alternative performance hurdles for releasing the forfeiture restrictions on the awards of book value stock approved for 2014 performance. The Committee also has the authority under the EIP to evaluate whether forfeiture of book value shares is appropriate if the Company's performance results are in the top quartile of its peer groups notwithstanding failure of the Company to achieve the performance hurdles.

Mr. Murphy is matched with an equivalent value in book value stock subject to the same performance hurdles. As the risk of forfeiture lapses over the five year period based on achievement of performance hurdles, he is paid in cash. His book value stock awards ultimately paid in cash are shown in the "Stock Awards" column of the Summary Compensation Table in the year the awards are made, consistent with the presentation for the other NEOs. The Committee believes Mr. Murphy's ownership interest in the Company is already significant and enough aligned with shareholder interests that the book value share awards under the EIP can be denominated and paid in cash as the forfeiture risk lapses.

The annual stock awards for 2014 performance were made in calendar year 2015. Thus, the 2014 stock award amounts for the NEOs will be shown in next year's proxy on the 2015 lines under the Stock Awards column of the Summary Compensation Table. The annual book value stock awards for 2013 (made in 2014) are shown on the 2014 lines of the "Stock Awards" column of the Summary Compensation Table below.

#### Long-Term Plan Awards Under the EIP

##### Why we pay this component

In addition to the annual incentive award of cash and book value stock, the EIP also offers participants an additional periodic award of cash and stock in the event the Company achieves longer-term performance goals. These performance goals are established periodically (usually every 3 years) as part of the Company's ongoing long-term strategic planning process. The current 3-year performance goal period ends in 2016 with targets set in early 2014 and awards being determined and paid in early 2017. These awards are also designed to reward consistent individual performance over the long term as individual performance is calculated based on the participant's average annual incentive awards under the EIP over the three-year period. These awards further reinforce alignment with the interests of our shareholders by encouraging a long-term view with sound strategic planning and risk management and providing participants with an opportunity for additional ownership of the Company but with the same market risk to which shareholders of the Company are exposed.

##### How we determine the amount.

Calculation of Amount of the Long-Term Plan Awards: The most recent 3-year performance goal period ended in 2013 with targets set in early 2011 and awards being determined and paid in early 2014. The goals for the 2011-2013 period included the following:

	Weighting	Minimum	Target	Maximum	Actual
Return on assets	15%	1%	1.1%	1.25%	1.19%
Expense to revenue ratio	15%	61%	59%	57%	62.44%
Net interest margin	10%	3.7%	3.85%	4%	3.67%
	15%	0.75%	0.5%	0.25%	0.07%



Net charge offs and other credit-related losses to average loans, leases, repossessed assets and other real estate

Period-end nonperforming assets	15%	2%	1.5%	0.75%	1.29%
Other strategic growth metrics	30%	80% of Target	Target	125% of Target	96% of Target

15

---

The goals for the 2014-2016 period include the following:

	Weighting	Minimum	Target	Maximum
Return on assets	15%	88% of Target	Target	112% of Target
Expense to revenue ratio	15%	104% of Target	Target	96% of Target
Net interest margin	10%	96% of Target	Target	104% of Target
Net charge offs and other credit-related losses to average loans, leases, repossessed assets and other real estate	15%	150% of Target	Target	50% of Target
Period-end nonperforming assets	15%	133% of Target	Target	50% of Target
Other strategic growth metrics	30%	80% of Target	Target	125% of Target

Company performance is scored at 50% for minimum, 100% for target and 200% for maximum. The three year awards then are calculated based upon a pre-determined mathematical formula that multiplies the Company's weighted performance relative to its long-term goals by an assigned percentage and then by the participant's average annual incentive award under the EIP over the three year period. The participant may earn from 0% to 200% of his/her average annual incentive awards over the three year period. For the 2011-2013 period, the assigned percentages of the NEOs for purposes of the three year long-term awards were as follows:

Mr. Murphy	100	%	Mr. Griffith	90	%
Mr. Seitz	90	%	Mr. Qualey	90	%
Ms. Short	77	%			

For the 2014-2016 period, the assigned percentages of the NEOs for purposes of the three year long-term awards are as follows:

Mr. Murphy	100	%	Mr. Griffith	90	%
Mr. Seitz	100	%	Mr. Qualey	90	%
Ms. Short	90	%			

Method of Payment of Periodic Long-Term Awards: The periodic long-term awards are paid with a combination of cash and market value stock, with more senior participants required to take a higher percentage of stock. The stock portion is subject to forfeiture over a five-year period based upon the participant remaining with the Company and the Company remaining profitable during the period. For Mr. Murphy and Mr. Seitz, the split for the 2011-13 performance period was 25% cash and 75% stock. For Ms. Short, Mr. Griffith and Mr. Qualey, the split was 30% cash, 70% stock. Cash was paid to the NEOs (and other participants) upon approval of the awards by the Committee. For Mr. Murphy, the stock portion of his award was subject to the same forfeiture term but because of his existing ownership interest in the Company, the Committee approved payment to Mr. Murphy in cash as the five-year forfeiture period lapses. This market value stock award ultimately paid in cash is shown in the "Stock Awards" column of the Summary Compensation Table in 2014, the year the award was made, consistent with the presentation for the other NEOs. For performance during 2011 through 2013, the NEOs received periodic long-term awards as follows:

	Cash	Stock	Total		Cash	Stock	Total
Mr. Murphy	\$127,400	\$382,100	\$509,500	Mr. Griffith	\$31,700	\$73,900	\$105,600
Mr. Seitz	22,400	67,200	89,600	Mr. Qualey	35,700	83,300	119,000
Ms. Short	17,400	40,700	58,100				

The cash portion of the 2011-13 awards is shown on the 2013 lines of the Non-Equity Incentive Compensation Plan column of the Summary Compensation Table. The stock portion of the 2011-13 awards was approved in calendar year 2014 and is shown in this proxy on the 2014 lines of the Stock Awards column of the Summary Compensation Table. Annual Incentive Awards Under the 1998 Plan

Why we pay this component.

NEOs have an additional incentive compensation plan available to them which is designed to encourage execution of the Company's strategic objectives on an annual and a long-term basis. It includes goals that are quantitative, strategically based and are tied to the activities that impact the long-term performance of the Company. NEOs and other members of senior management are eligible to participate. Historically, only Mr. Murphy has qualified for an award under the 1998 Plan. In 2014, the Committee also made Ms. Short and Messrs. Griffith and Seitz participants in the 1998 Plan effective as of August 1, 2014 for a pro rata participation for the year. All participants shared the same goals for 2014. Future inclusion may use goals that are unique to each participant's responsibilities.

How we determine the amount.

Under this program, awards for participants are based on the net income of the Company. The Committee set the range from 0.50% to 1.50% of net income for the total program with a target of 1.00%. All awards are subject to the Company achieving a minimum net income goal. The Committee set the following individual award levels as a percentage of the Company's net income:

	Minimum	Target	Maximum
Mr. Murphy	0%	0.40%	1.00%
Mr. Seitz	0%	0.15%	0.36%
Ms. Short	0%	0.15%	0.36%
Mr. Griffith	0%	0.10%	0.25%

For 2014 the goals and individual weightings were as follows:

	Mr. Murphy	Mr. Seitz	Ms. Short	Mr. Griffith
Developing and executing growth strategies for specific markets – customer counts, deposits and loan outstandings, households served	20%	23%	20%	15%
Converting specified markets to the Company's branded position – measured advertising results in each market	17%	23%	17%	14%
Upgrading and demonstrating senior management commitment to the Company's lean transformation and strategic deployment process with appropriate integration into the Company's management process – 5S (workplace organization and cleanliness) success, number of employees trained and participating in lean initiatives	21%	17%	29%	28%
Identifying, developing and implementing the Company's brand strategy in all appropriate lines of business, regions or divisions of business units' alignment with brand strategy	21%	23%	13%	17%
Integrating the new Chief Information Officer into the Company and developing a three to five-year long-term information technology strategy including business continuity considerations as measured by the delivery and acceptance of plans	21%	14%	21%	26%
Total weighting	100%	100%	100%	100%

The Committee assesses performance against these goals for Mr. Murphy. Mr. Murphy makes recommendations to the Committee on the other NEOs' performance based on their individual contributions to the achievement of the goals. In assessing performance against these performance goals, the Committee considers quantitative factors first and adjusts downward for qualitative factors, and ultimately uses its judgment when determining the amount and

terms of individual awards.

The Company earned net income that exceeded the minimum net income goal. The Committee chose to pay the entire bonus amounts in cash. The annual cash awards are paid following the Committee's approval of the awards. For the 2014 participants, the Committee approved cash awards for 2014 performance as follows:

Mr. Murphy	\$163,739
Mr. Seitz	\$26,519
Ms. Short	\$25,611
Mr. Griffith	\$15,558

The awards for Ms. Short and Messrs. Griffith and Seitz were prorated to correspond to the five months they were participants in the 1998 Plan.

#### Awards Under the 1982 Restricted Stock Award Plan

Why we pay this component.

The Restricted Stock Award Plan provides for the grant of restricted shares to selected executives and other key employees of the Company as a means of inducing continued future employment and performance of such key employees. The Restricted Stock Award Plan provides that the shares shall vest over a period of time if the participant continues to serve as an employee. Additionally, the Committee may set additional vesting requirements at the time of grant based on the individual participant's performance, the Company's financial performance or both. If the participant does not meet or exceed his or her individual performance goal(s) for a given year, all shares so restricted with respect to that year will be forfeited. If 1st Source does not meet the financial requirements by the end of the vesting period, the shares so restricted are forfeited. The Committee retains discretion to make periodic stock awards from time to time in the future to maximize the usefulness of the Restricted Stock Award Plan in attracting, retaining and motivating key employees.

How we determine the amount.

Ms. Short received a restricted stock award in conjunction with her promotion in 2012, to be earned over the following ten years subject to her remaining with the Company. The Committee made this award in recognition of Ms. Short's increased responsibilities and past performance, as a retention incentive, and to tie her long-term financial incentives more closely to that of the Company's shareholders. The Committee made the award after reviewing Ms. Short's total compensation at the time of her promotion.

#### Stock Ownership Guidelines

In February 2015, the Company established stock ownership guidelines for its NEOs. The Company requires the CEO to own Company stock with value at least equal to five times the CEO's current base salary and other NEOs to own Company stock with a value at least equal to three times the NEO's current base salary. All of the Company's NEOs are currently in compliance with this requirement.

#### Hedging or Pledging Company Securities

In February 2015, the Company adopted a policy prohibiting directors, NEOs and other Senior Vice Presidents or above from pledging shares of the Company on margin, trading in derivative securities of the Company's common stock, engaging in short sales or buying or selling put or call options on the Company's common stock, and purchasing or selling other financial instruments designed to hedge or offset any decrease in the market value of the Company's common stock. Shares owned by directors, NEOs and other Senior Vice Presidents in excess of those required to be owned by Company stock ownership guidelines may be used as collateral for the owner's personal or business borrowing purposes upon notification of and prior approval by the Governance and Nominating Committee.

#### Most Recent Shareholder Advisory Vote

The Executive Compensation and Human Resources Committee carefully considered the results of the 2014 shareholder advisory vote on executive compensation. The CEO also reviewed and discussed the results of the vote with selected larger shareholders. The result of the advisory vote was that 84% of votes cast approved of the executive compensation of the NEOs as described in the 2014 Proxy Statement. The results indicated shareholder support for the Company's executive compensation decisions and policies and the Committee has continued to make its compensation decisions consistent with historical practice and existing policies.

Shareholders are given an opportunity to cast an advisory vote on the Company's executive compensation program every three years with the next opportunity occurring in connection with the annual shareholder meeting in April 2017.

#### Risk Management

As discussed above, the senior executive officer compensation plans include both equity and cash components that link executive compensation to the Company's overall performance on both a short-term and long-term basis, subject to forfeiture based on the executive failing to remain with the Company and on long-term real economic performance of the Company. As such, these plans do not encourage the senior executive officers to take unnecessary and excessive risks that threaten the Company. Nor do they encourage the manipulation of earnings of the Company to enhance the compensation of any employee.

The Committee also identified and reviewed the Company's five business unit incentive plans, each of which rewards measurable performance in the Company's five major product and service segments: Business Banking, Consumer Banking, Specialty Finance, Trust and Asset Management, and Insurance. Each of these incentive plans has common features that encourage high quality, long-term relationship business and discourage unnecessary or excessive risks for short-term gain. In particular, short-term cash awards generally are capped at a specific dollar amount or a percentage of a participant's salary midpoint or base salary. These awards generally are much less than the maximum amount after applying the respective individual performance metrics under the plans. Annual stock awards are similarly limited to a percentage of a participant's salary midpoint and have long-term attributes. They carry substantial risks of forfeiture over a five-year period if performance hurdles that are tied to Company performance are not cleared. They are made in book value common stock transferable only to the Company upon death, disability, normal retirement, early termination of employment, or by discretionary approval of the Committee, with less favorable payout terms upon early termination of employment. The incentive plans for lenders further mitigate excessive risks by including substantial weightings or deductions for credit quality and net charge-offs. The Committee also identified and

reviewed the Company's referral programs designed to encourage internal referrals by providing small, immaterial cash incentives to eligible participants.

These features, combined with the systems of controls in place to mitigate the risks of the products and services the Company offers, limit and discourage the taking of unnecessary or excessive risks. They also discourage and mitigate the risk of manipulation of reported earnings to enhance the compensation of any employee. None of these incentive plans or referral programs, alone or in aggregate, encourages unnecessary or excessive risks or presents significant risks to the Company as a whole.

#### Clawbacks

All incentive awards approved by the Committee are subject to "claw back" in the event the financial results upon which they were based are later determined to have been overstated. In such event, the awards for the period in question would be recalculated and the recipients would be responsible for repayment to the Company of the difference in the amount of the original awards and the amount of the recalculated awards.

#### Employment Agreements

Among the NEOs, the Company has entered into employment agreements with Messrs. Murphy and Griffith and Ms. Short. The agreements provide for severance payments in the event of the executive's termination of employment because of a material adverse change in his or her status. In such event, the executive would continue to receive only his or her base salary for a period of time after his or her termination. Mr. Murphy would receive the equivalent of 36 months of base salary with the first six months payable in a lump sum. Mr. Griffith and Ms. Short would receive the equivalent of twelve months of base salary with the first six months payable in a lump sum. The Committee believes that providing severance payments to certain executives in the event the executives terminate employment because of a material adverse change in status is necessary and fair given the critical nature of the roles of the executives. As of December 31, 2014 Mr. Murphy, Mr. Griffith and Ms. Short would receive \$2.13 million, \$324,000 and \$270,000, respectively under the agreements.

The employment agreements also provide for severance payments in the event Mr. Murphy, Mr. Griffith or Ms. Short terminates his or her employment for good reason within one year of a change in control transaction. The executive would receive severance pay in cash equal to 2.99 times his or her “Annualized Includable Compensation for the Base Period” (as defined under the Internal Revenue Code of 1986, as amended). The Committee reaffirmed its long-standing view that such a “two-trigger” change in control provision for key executives is consistent with the interests of shareholders and fair protection to the executives.

In 2014 the Committee re-considered the appropriateness of the provision in such agreements to compensate the executives for certain income tax effects they could incur if the change of control payment amount received under the employment agreement were to exceed the maximum threshold for such payments under the Code (called a “gross-up provision”) and concluded that the provision is no longer necessary for the recruitment or retention of key executives. Upon request of the Committee in early 2014, Mr. Murphy, Mr. Griffith and Ms. Short each agreed to amendment of his or her employment agreement to delete the provision.

#### Tax Deductibility of Pay

Federal income tax law caps at \$1,000,000 the deductible compensation per year for each of the NEOs, subject to certain exceptions. In developing and implementing executive compensation policies and programs, the Executive Compensation and Human Resources Committee considers whether particular payments and awards are deductible for federal income tax purposes, along with other relevant factors. The Executive Compensation and Human Resources Committee has taken what it believes to be appropriate steps to maximize the deductibility of executive compensation. It is the general intention of the Executive Compensation and Human Resources Committee to meet the requirements for deductibility whenever possible. The Executive Compensation and Human Resources Committee will continue to review and monitor the deductibility of compensation.

#### SUMMARY COMPENSATION TABLE

The following table provides information regarding compensation earned by the Company's Chief Executive Officer, Chief Financial Officer, and the three other executive officers employed at the end of 2014 who were the most highly compensated in 2014 among the major policy-making executives of the Company.

Name and Principal Position	Year	Salary(\$)	Stock Awards (\$) <sup>(1)</sup>	Non-Equity Incentive Plan Compensation(\$)	All Other Compensation(\$) <sup>(2)</sup>	Total <sup>(6)</sup>
Christopher J. Murphy III Chairman & CEO	2014	\$707,692	\$619,849	\$413,739	\$106,022	\$1,847,302
	2013	695,000	205,517	655,000	97,106	1,652,623
	2012	690,869	283,874	455,500	111,243	1,541,486
James R. Seitz President	2014	282,538	121,601	91,119	58,534	553,792
Andrea G. Short Executive Vice President, Treasurer & CFO	2014	251,538	89,629	79,811	35,302	456,280
	2013	220,000	21,266	70,250	32,683	344,199
	2012	165,309	263,400	21,250	26,015	475,974
John B. Griffith Executive Vice President General Counsel & Secretary	2014	319,152	138,103	74,958	38,277	570,490
	2013	311,000	45,873	103,050	37,824	497,747
	2012	303,269	66,002	45,850	39,090	454,211
Allen R. Qualey President and Chief Operating Officer, Specialty Finance Group, 1st Source Bank	2014	269,971	153,447	63,850	35,922	523,190
	2013	263,654	53,222	113,900	33,594	464,370
	2012	258,626	65,353	56,300	33,954	414,233



Amounts included in Stock Awards represent the aggregate grant date fair value of all awards computed in accordance with FASB ASC Topic 718 granted during the year. These amounts generally relate to the prior year's performance and are subject to forfeiture over the succeeding five (5) years.

19

---

(2) Amounts included in All Other Compensation for the most recent fiscal year are as follows:

	Company Contributions to Defined Contribution Retirement Plans	Dividends on Stock Awards	Directors' Fees	Perquisites <sup>(3)(4)</sup>	Value of Life Insurance Benefits	Other	Total
Mr. Murphy	\$21,689	\$37,742	\$23,000	\$12,923	\$10,668	\$ —	\$106,022
Mr. Seitz <sup>(5)</sup>	21,689	9,760	23,000	«	4,085	—	\$58,534
Ms. Short	21,137	12,813	—	«	1,352	—	35,302
Mr. Griffith	21,689	12,066	—	«	4,522	—	38,277
Mr. Qualey	21,689	10,336	—	«	3,897	—	35,922

« Not included - total of perquisites and benefits is less than \$10,000

(3) Mr. Murphy's perquisites included company car mileage, country club dues, annual medical exam and personal usage of the company plane. These are valued at the incremental cost to the Company. For personal use of the company plane, the incremental cost is the SIFL cost.

(4) Mr. Murphy reimbursed the Company \$5,000 in each year shown for miscellaneous incalculable personal benefits.

(5) Mr. Seitz serves on the 1st Source Bank Board of Directors and receives the fees shown for his services.

(6) There were no bonus awards, option awards or changes in pension value and non-qualified deferred compensation earnings for the named executive officers in 2014, 2013 or 2012.

#### 2014 GRANTS OF PLAN-BASED AWARDS

##### Estimated Future Payouts Under Equity Incentive Plan

Name	Book Value Awards (#Shares)				Grant Date Fair Value of Stock Awards	Market Value Awards (#Shares)				
	Grant Date	Threshold	Target	Maximum		Grant Date	Threshold	Target	Maximum	Grant Date Fair Value of Stock Awards
Christopher J. Murphy III	2/10/14 <sup>(1)</sup>	—	11,417	—	\$24.07	2/10/14 <sup>(2)</sup>	—	11,964	—	\$28.84
James R. Seitz	2/10/14 <sup>(1)</sup>	—	2,531	—	24.07	2/10/14 <sup>(2)</sup>	—	2,104	—	28.84
Andrea G. Short	2/10/14 <sup>(1)</sup>	—	2,196	—	24.07	2/10/14 <sup>(2)</sup>	—	1,275	—	28.84
John B. Griffith	2/10/14 <sup>(1)</sup>	—	2,965	—	24.07	2/10/14 <sup>(2)</sup>	—	2,314	—	28.84
Allen R. Qualey	2/10/14 <sup>(1)</sup>	—	3,249	—	24.07	2/10/14 <sup>(2)</sup>	—	2,609	—	28.84

Note: There were no non-equity incentive plan awards with future payouts made during 2014. Also, there were no other stock awards or option awards made during 2014.

Annual Executive Incentive Plan award subject to forfeiture over a five-year period based on the executive (1) remaining with the Company and the Company achieving annual financial performance hurdles as discussed above under "Annual Incentive Awards Under the EIP".

(2) Long-Term Executive Incentive Plan award subject to forfeiture over a five-year period based on the executive remaining with the Company and the continued financial performance of the Company.

NARRATIVE DISCLOSURE TO SUMMARY COMPENSATION TABLE AND GRANTS OF PLAN-BASED AWARDS TABLE

Employment Agreements:

Messrs. Murphy and Griffith each entered into an employment agreement effective January 1, 2008. Ms. Short entered into an employment agreement effective January 1, 2013.

Mr. Murphy's agreement provides for a \$710,000 base salary at January 1, 2015, with annual increases as the Committee may deem appropriate each year, and bonus payments (paid in cash or stock at Mr. Murphy's election) under the Executive Incentive Plan and the 1998 Performance Compensation Plan. Under the other two agreements, Mr. Griffith and Ms. Short receive base salaries of \$324,000 and \$270,000 respectively, at January 1, 2015, with increases thereafter as may be determined by 1st Source, and cash and stock bonuses determined under the Executive Incentive Plan and the 1998 Performance Compensation Plan.

Mr. Murphy's, Mr. Griffith's and Ms. Short's agreements expire on December 31, 2015. Each will be extended from year-to-year thereafter unless either party gives a notice of non-renewal to the other. The term of Mr. Murphy's agreement will end on December 31 of the third year following the year in which any notice of non-renewal is given. The term of the agreements with Mr. Griffith and Ms. Short will end on December 31 of the same year in which any non-renewal notice is given.

In the event of an executive's death, the executive's beneficiaries would receive a payment in the amount of twice the executive's current base salary up to a maximum of \$750,000 under a group term life insurance policy provided by the Company. Mr. Griffith's beneficiaries also would receive a payment of \$600,000 under an individual policy for which the Company pays the premiums.

The employment agreements also include restrictive covenants which require, among other things, that the executives not compete with 1st Source in bank or bank-related services within the geographic region in which full-service retail branches of 1st Source Bank or any affiliate are located. The agreements also prohibit the executives from ever divulging confidential information or trade secrets after termination of employment.

In the event an executive's employment is terminated because of disability and in addition to other disability programs in effect for all officers of 1st Source, the executive will receive twelve months of base salary, with the first six months payable in a lump sum and the balance paid in monthly installments beginning on the first day of the seventh month following the date of termination.

See Compensation Discussion & Analysis above for discussion of other terms of the employment agreements.

Bonus Plan:

See discussion above in the Compensation Discussion & Analysis

The amounts shown in the Stock Awards column of the Summary Compensation Table represent the aggregate grant date fair value of all awards granted during the fiscal year computed in accordance with FASB ASC Topic 718. The amounts shown in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table represent the annual and long-term cash awards under the EIP and the 1998 Plan. Estimated future payout amounts for 2014 stock awards and the corresponding grant date fair values are shown in the Grants of Plan-Based Awards Table. Recipients of unvested book value and market value shares granted under the EIP and the 1998 Plan receive dividends at the same time and in the same amount as all other holders of 1st Source common stock.

The relative amounts of salary and bonus are discussed above under "Components of Compensation and 2014 Compensation Decisions."

## OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2014

Stock Awards<sup>(3)</sup>

Name	Number of Shares of Stock That Have Not Vested <sup>(1)(2)</sup>	Market Value of Shares of Stock That Have Not Vested <sup>(1)</sup>	Equity Incentive Plan Awards: Number of Unearned Shares That Have Not Vested <sup>(1)(2)</sup>	Equity Incentive Plan Awards: Payout or Market Value of Unearned Shares That Have Not Vested <sup>(1)</sup>
Christopher J. Murphy III				
Book Value Shares			21,997	\$754,707
Market Value Shares	33,235	\$855,801		
James R. Seitz				
Book Value Shares			7,605	260,928
Market Value Shares	6,005	154,629		
Andrea G. Short				
Book Value Shares			13,056	447,951
Market Value Shares	4,847	124,810		
John B. Griffith				
Book Value Shares			8,111	278,288
Market Value Shares	8,560	220,420		
Allen R. Qualey				
Book Value Shares			6,464	221,780
Market Value Shares	8,472	218,154		

(1) Shares vested for purposes of this table and the following table are awarded shares which are no longer subject to forfeiture under the terms of the Executive Incentive Plan or the Restricted Stock Award Plan.

(2) Vesting dates for these awards are as follows:

	Book Value Shares	Market Value Shares
Mr. Murphy	12/2014 - 12/2018	12/2014 - 12/2018
Mr. Seitz	12/2014 - 12/2018	12/2014 - 12/2018
Ms. Short	12/2014 - 12/2018	12/2014 - 12/2022
Mr. Griffith	12/2014 - 12/2018	12/2014 - 12/2018
Mr. Qualey	12/2014 - 12/2018	12/2014 - 12/2018

Note: Shares vesting based on calendar year results (e.g., 12/2014 above is based on 2014 results) are not released until financial results are publicly announced early in the following year.

(3) The named executive officers have no outstanding stock option awards at December 31, 2014.

## OPTION EXERCISES AND STOCK VESTED – 2014

Name	Stock Awards <sup>(1)</sup>		Value Realized on Full Vesting
	Number of Book Value Shares Acquired on Vesting	Number of Market Value Shares Acquired on Vesting	
Christopher J. Murphy III	8,319	6,403	\$404,750
James R. Seitz	1,389	2,760	121,308
Andrea G. Short	1,177	2,896	120,829
John B. Griffith	2,640	2,930	156,849
Allen R. Qualey	2,309	1,967	118,404

(1) The named executive officers did not exercise any stock option awards during 2014.

## DIRECTOR COMPENSATION – 2014

Name	Fees Earned or Paid in Cash <sup>(1)</sup>	Total
Allison N. Egidi	\$56,000	\$56,000
Daniel B. Fitzpatrick <sup>(1)</sup>	76,750	76,750
Tracy D. Graham <sup>(1)</sup>	42,500	42,500
Wellington D. Jones III <sup>(1)</sup>	48,500	48,500
Craig A. Kapson <sup>(1)</sup>	60,000	60,000
Najeeb A. Khan <sup>(1)</sup>	55,500	55,500
Vinod M. Khilnani <sup>(1)</sup>	54,500	54,500
Rex Martin <sup>(1)</sup>	53,500	53,500
Christopher J. Murphy III	See Summary Compensation Table	
Christopher J. Murphy IV	56,000	56,000
Timothy K. Ozark <sup>(1)</sup>	72,000	72,000
John T. Phair <sup>(1)</sup>	51,500	51,500
Mark D. Schwabero <sup>(1)</sup>	72,750	72,750

(1) These directors received \$22,994 of their annual retainer in the form of 780 shares of stock rather than cash at their election. These shares had a grant date fair value of \$29.48 in accordance with FASB ASC Topic 718.

(2) There were no stock awards, option awards, non-equity incentive plan compensation, pension or other deferred compensation earnings or other compensation paid to non-employee directors in 2014.

## Executive Compensation and Human Resources Committee Report

The Executive Compensation and Human Resources Committee has reviewed and discussed the Compensation Discussion & Analysis section of this Proxy Statement with management. In reliance on these reviews and discussions, the Committee recommended to the Board of Directors that the Compensation Discussion & Analysis section be included in this Proxy Statement.

## Executive Compensation and Human Resources Committee

	Daniel B. Fitzpatrick, Chairman	
Rex Martin	Timothy K. Ozark	Mark D. Schwabero
Compensation Committee Interlocks and Insider Participation		

No member of the Executive Compensation and Human Resources Committee is or was formerly an officer or employee of the Company. No executive officer of the Company currently serves or in the past year has served as a member of the compensation committee or board of directors of another company of which an executive officer serves

on the Executive Compensation and Human Resources Committee. Nor does any executive officer of the Company serve or has in the past year served as a member of the compensation committee or another company of which an executive officer serves as a Director of the Company.

## Section 16(a) Beneficial Ownership Reporting Compliance

The Securities Exchange Act of 1934 requires executive officers and directors to file reports of ownership and changes in ownership of 1st Source Corporation stock with the Securities and Exchange Commission and to furnish 1st Source with copies of all reports filed. Based solely on a review of the copies of such reports furnished to 1st Source and written representations from the executive officers and directors that no other reports were required, 1st Source believes that all filing requirements were complied with during the last fiscal year.

## Relationship with Independent Registered Public Accounting Firm

The financial statements of 1st Source are audited annually by an independent registered public accounting firm. For the year ended December 31, 2014 and the fourteen (14) preceding years, the audit was performed by Ernst & Young LLP. Fees for professional services provided by Ernst & Young LLP for the last three (3) years were as follows:

	2014	2013	2012
Audit Fees	\$669,600	\$646,050	\$628,250
Audit-Related Fees	23,000	22,000	21,000
Tax Fees	22,600	24,500	23,675
Other Fees	—	—	—
Total	\$715,200	\$692,550	\$672,925

The Audit Committee shall pre-approve all audit and non-audit services provided by the independent auditors and shall not engage the independent auditors to perform the specific non-audit services proscribed by law or regulation. The Committee may delegate pre-approval authority to a member of the Audit Committee. The decisions of any Audit Committee member to whom pre-approval authority is delegated must be presented to the full Audit Committee at its next scheduled meeting. All fees paid to Ernst & Young in 2014 for non-audit services were pre-approved by the Audit Committee.

## Proposals of Security Holders

Proposals submitted by security holders for presentation at the next Annual Meeting must be submitted in writing to the Secretary, 1st Source Corporation, on or before November 1, 2015.

## Additional Information

A plurality of the shares voted at the annual meeting is required for election of directors. The Company knows of no other proposals expected to be presented at the meeting. Such a proposal, if any, would be approved if votes in favor of such proposal exceed those cast against.

The Securities and Exchange Commission's rules permit a company to deliver a single proxy statement, annual report, notice of internet availability of proxy materials or prospectus to an address shared by two or more of its shareholders. This method of delivery is referred to as "householding." Unless shareholders request otherwise, 1st Source will "household" their proxy statement and annual report, as well as any prospectus or notice of internet availability of proxy materials, which may be sent to them. Regardless of how many 1st Source shareholders live under one roof, they will receive a single copy of each proxy statement, annual report, notice of internet availability of proxy materials or prospectus that is being mailed to shareholders. However, 1st Source will continue to deliver to every 1st Source shareholder in a household an individual proxy card in connection with any meeting of its shareholders where votes are being cast.

If a shareholder prefers to receive individual copies of proxy statements, annual reports, notice of internet availability of proxy materials or prospectuses, the shareholder should call the Company's transfer agent, American Stock Transfer & Trust Company, toll-free at 800-347-1246. Representatives are available to assist shareholders Monday through Thursday from 8:00 a.m. until 7:00 p.m. ET, and 8:00 a.m. until 5:00 p.m. ET on Friday, or write to Chuck Ditto, Trust Operations, 1st Source Corporation, P. O. Box 1602, South Bend, IN 46634. 1st Source will start sending separate documents to a requesting shareholder of record within 30 days of the request.

Beneficial shareholders can request information about householding from their banks, brokers or other holders of record.

Important Notice Regarding The Availability Of Proxy Materials For The Shareholder Meeting To Be Held On April 23, 2015: The Notice of Annual Meeting of Shareholders and Proxy Statement, Annual Report and Proxy Card are available at <https://materials.proxyvote.com/336901>.



Edgar Filing: 1ST SOURCE CORP - Form DEF 14A

A copy of 1st Source's Annual Report on Form 10-K is furnished herewith to shareholders for the calendar year ended December 31, 2014, containing financial statements for such year. The financial statements and the Report of Independent Registered Public Accounting Firm are incorporated by reference in this Proxy Statement.

By Order of the Board of Directors,

John B. Griffith

Secretary

South Bend, Indiana

March 17, 2015

24

---

ANNUAL MEETING OF SHAREHOLDERS OF 1st SOURCE CORPORATION

April 23, 2015 10:00 a.m.

1st Source Center, 4th Floor Boardroom, 100 North Michigan Street, South Bend, Indiana 46601

PROXY VOTING INSTRUCTIONS

INTERNET — Access “www.voteproxy.com” and follow the on-screen instructions or scan the QR code with your smartphone. Have your proxy card available when you access the web page.

TELEPHONE — Call toll-free 1-800-PROXIES (1-800-776-9437) in the United States or 1-718-921-8500 from foreign countries from any touch-tone telephone and follow the instructions. Have your proxy card available when you call.

Vote online/phone until 11:59 PM EST the day before the meeting.

MAIL — Sign, date and mail your proxy card in the envelope provided as soon as possible.

IN PERSON — You may vote your shares in person by attending the Annual Meeting.

COMPANY NUMBER \_\_\_\_\_ ACCOUNT NUMBER \_\_\_\_\_

---

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be held on April 23, 2015:

---

The Notice of Annual Meeting of Shareholders and Proxy Statement, Annual Report and Proxy Card are available at — <https://materials.proxyvote.com/336901>.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF DIRECTORS. PLEASE SIGN, DATE, AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE. x

1. Election of Directors:

- |   |                     |                         |
|---|---------------------|-------------------------|
| <input type="radio"/> FOR ALL NOMINEES                        | j Allison N. Egidi  | Term Expires April 2018 |
| <input type="radio"/> WITHHOLD AUTHORITY FOR ALL NOMINEES     | j Craig A. Kapson   | Term Expires April 2018 |
| <input type="radio"/> FOR ALL EXCEPT (See instructions below) | j John T. Phair     | Term Expires April 2018 |
|   | j Mark D. Schwabero | Term Expires April 2018 |

INSTRUCTIONS: To withhold authority to vote for any individual nominee(s), mark "FOR ALL EXCEPT" and fill in the circle next to each nominee you wish to withhold, as shown here: l

---

2. Such Other Business as May be Brought Before the Meeting

In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting.

Edgar Filing: 1ST SOURCE CORP - Form DEF 14A

This proxy when properly executed will be voted in the manner directed herein by the undersigned shareholder. If no direction is made, this proxy will be voted for all nominees listed in Proposal 1.

As an alternative to completing this form, you may enter your vote instruction by telephone at 1-800-PROXIES and follow the simple instructions. Use the Company and Account Number shown on your proxy card.

The undersigned hereby appoints Christopher J. Murphy III, John B. Griffith and Andrea G. Short and each of them proxies; to represent the undersigned, with full power of substitution, at the Annual Meeting of Shareholders of 1st Source Corporation to be held April 23, 2015 and at any and all adjournments thereof.

Signature of Shareholder: \_\_\_\_\_ Date: \_\_\_\_\_

Signature of Shareholder: \_\_\_\_\_ Date: \_\_\_\_\_

NOTE: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

---

To change the address on your account, please check the box at right and indicate your new address in the space above. Please note that changes to the registered name(s) on the account may not be submitted via this method. o

---

1st SOURCE CORPORATION

Proxy for Annual Meeting of Shareholders on April 23, 2015

Solicited on Behalf of the Board of Directors

The undersigned hereby appoints Christopher J. Murphy III, John B. Griffith, and Andrea G. Short and each of them proxies; to represent the undersigned, with full power of substitution, at the Annual Meeting of Shareholders of 1st Source Corporation to be held April 23, 2015 and at any and all adjournments thereof.

(Continued and to be signed on the reverse side)