1ST SOURCE CORP
Form DEF 14A
March 14, 2008

SCHEDULE 14A INFORMATION

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 [ ]

Check the appropriate box:
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[ ] 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)

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(1) Amount Previously paid:

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

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(3) Filing Party:

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(4) Date Filed:

Post Office Box 1602
South Bend, Indiana 46634

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 24, 2008, 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 2011.

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 20, 2008 are entitled to vote at the meeting.

By Order of the Board of Directors,

John B. Griffith
Secretary

South Bend, Indiana
March 14, 2008

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

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1st SOURCE CORPORATION
P.O. Box 1602 • South Bend, Indiana 46634

Proxy Statement

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of proxies to be voted at the Annual Meeting of Shareholders of 1st Source Corporation ("1st Source"), to be held on April 24, 2008, at 10:00 a.m. local time, at the 1st Source Center, 100 North Michigan Street, 4th Floor Boardroom, South Bend, Indiana 46601. Only shareholders of record at the close of business on February 20, 2008, will be eligible to vote at the Annual Meeting. The voting securities of 1st Source consist only of Common Stock, of which 24,899,165 shares were outstanding on the record date. Each shareholder of record on the record date will be entitled to one vote for each share. Cumulative voting is not authorized. The approximate date for making available this Proxy Statement and the form of proxy to shareholders is March 14, 2008. With respect to each matter to be acted upon at the meeting, abstentions on properly executed proxy cards will be counted for determining a quorum at the meeting; however, such abstentions and shares not voted by brokers and other entities holding shares on behalf of beneficial owners will not be counted in calculating voting results on those matters for which the shareholder has abstained or the broker has not voted.

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

Revocability

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.

Persons making the Solicitation

This solicitation is being made by the Board of Directors of 1st Source.

Voting Securities and Principal Holders Thereof

Beneficial owners of more than 5% of the Common Stock outstanding at February 20, 2008:

Name and Address	Type of Ownership	Amount	% of Class
Ernestine M. Raclin(1)	Direct	31,329	0.12%
100 North Michigan Street	Indirect (2)	5,384,750	21.63%
South Bend, IN 46601	Total	5,416,079	21.75%
Christopher J. Murphy III	Direct	839,783	3.37%
100 North Michigan Street	Indirect (3)	2,433,023	9.77%
South Bend, IN 46601	Total	3,272,806	13.14%
Dimensional Fund Advisors, Inc.	Direct (4)	1,818,162	7.30%
1299 Ocean Avenue, 11th Floor			
Santa Monica, CA 90401			
1st Source Bank as Trustee for the 1st Source Corporation Employee Stock Ownership and Profit Sharing Plan Trust	Direct	1,292,977	5.19%

(1) Mrs. Raclin is the mother-in-law of Mr. Murphy.

(2) Owned indirectly by Mrs. Raclin who disclaims beneficial ownership thereof. Most of these securities are held in trusts, of which 1st Source Bank is the trustee and has sole voting power. While Mrs. Raclin is an income beneficiary of many of these trusts, the ultimate benefit and ownership will reside in her children and grandchildren.

(3) Owned indirectly by Mr. Murphy who disclaims beneficial ownership thereof. The securities are held by Mr. Murphy's wife and children, or in trust or limited partnerships for the benefit of his wife and children. Mr. Murphy is not a current income beneficiary of most of the trusts. Due to the structure of various trusts and limited partnerships, 77,066 shares are shown both in Mr. Murphy's and Mrs. Raclin's ownership.

(4) As reported in Form 13G filed February 6, 2008, Dimensional Fund Advisors, Inc., 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, nor 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 2008 Annual Meeting, four (4) directors are to be elected for terms expiring in 2011, or until the qualification and election of a successor. Directors will be elected by a plurality of the votes cast.

The following information is submitted for each nominee as well as each director and each non–director executive officer continuing in office. Toby S. Wilt is a current director at the time of this proxy statement who will not be standing for re-election at the 2008 Annual Meeting.

Name	Age	Principal Occupation(1)	Year in Which Directorship Assumed	Beneficial Ownership of Equity Securities(2) Common Stock	% of Class
Nominees for Election to the Board of Directors					
Terms Expiring in April, 2008 (April, 2011 if re-elected)					
Lawrence E. Hiler	62	Chairman, Hiler Industries (metal castings)	1992	2,382	*
Rex Martin	56	Chairman and Chief Executive Officer, NIBCO, Inc. (copper and plastic plumbing parts manufacturer)	1996	4,322	*
Christopher J. Murphy III	61	Chairman of the Board, President, and Chief Executive Officer, 1st Source Corporation; and Chairman of the Board and Chief Executive Officer, 1st Source Bank	1972	3,272,806 (3)	13.14%
Timothy K. Ozark	58	Chairman and Chief Executive Officer, Aim Financial Corporation(mezzanine funding and leasing)	1999	14,184	*
Directors Continuing in Office					
Terms Expiring in April, 2009					
Terry L. Gerber	67	President and Chief Executive Officer, Gerber Manufacturing Company, Inc.(clothing manufacturer)	2004	11,943	*
William P. Johnson	65	Chief Executive Officer, Flying J, LLC (consulting); prior thereto, Chief Executive Officer, Goshen Rubber Co. Inc. (rubber and plastic parts manufacturer); and Director, Coachmen Industries, Inc.	1996	28,016	*
Craig A. Kapson	57	President, Jordan Automotive Group (automotive dealerships)	2004	27,323	*
John T. Phair	58	President, Holladay Properties (real estate development)	2004	46,029	*
Mark D. Schwabero	55	President, Outboard Business Unit, Mercury Marine (marine propulsion systems); prior thereto, President and Chief Executive Officer, Hendrickson International	2004	4,121	*

		(heavy-duty transportation products)			
Terms Expiring in April, 2010					
Daniel B. Fitzpatrick	50	Chairman and Chief Executive Officer, Quality Dining, Inc. (quick service and casual dining restaurant operator)	1995	37,000	*
Wellington D. Jones III	63	Executive Vice President, 1st Source Corporation, and President and Chief Operating Officer, 1st Source Bank	1998	247,926	1.00%
Dane A. Miller, Ph.D.	62	Formerly, President and Chief Executive Officer, Biomet, Inc. (medical products and technology)	1987	20,684	*
		Non-Director Executive Officers			
Richard Q. Stifel	66	Executive Vice President, Loan Services Group and Chief Credit Officer, 1st Source Bank (since 1992)		119,891	*
Allen R. Qualey	55	President and Chief Operating Officer, Specialty Finance Group, 1st Source Bank (since 1997)		123,278	*
John B. Griffith	50	Senior Vice President, General Counsel and Secretary, 1st Source Corporation and 1st Source Bank (since 2001)		17,691	*
Larry E. Lentych	61	Senior Vice President, Treasurer and Chief Financial Officer, 1st Source Corporation and 1st Source Bank (since 1988)		84,498	*
All Directors and Executive Officers as a Group (18 persons)				4,062,094	16.31%

* 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 in other registered corporations are also disclosed.

(2) Based on information furnished by the directors and executive officers as of February 20, 2008.

(3) The amount shown includes 2,433,023 shares of Common Stock held directly or indirectly in the following amount by the spouse and other family members of the immediate household of Christopher J. Murphy III, who disclaims beneficial ownership of such securities. Voting authority for 1,043,804 shares owned indirectly by Mr. Murphy is vested in 1st Source Bank as Trustee for various family trusts. Investment authority for those shares is held by 1st Source Bank as Trustee of the underlying trusts.

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 2007 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 other persons and did not involve more than the normal risk of collectibility, 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 board approval for aggregate extensions of credit to executive officers and directors in excess of $500,000, with any interested director abstaining from the vote. 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 the amount the executive officer may borrow from 1st Source. 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 must make a written report to the Board.

Board Committees and Other Corporate Governance Matters

In January 2004, the Board of Directors adopted Corporate Governance Guidelines to ensure and document the Company's existing high standards for corporate governance. The Corporate Governance Guidelines are in accordance with the listing standards of the Nasdaq Stock Market and Securities and Exchange Commission rules. The Corporate Governance Guidelines are available on the Company's website at 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 standards of the Nasdaq Stock Market. The Board has determined, after careful review, that each member of the Board is independent as defined in the Company's Corporate Governance Guidelines, with the exception of Mr. Murphy and Mr. Jones, who are employed by the Company. Accordingly, twelve out of the fourteen current members of the Board are independent directors.

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

Committee	Members	Functions	2007 Meetings
Executive and Governance(2)	Christopher J. Murphy III Timothy K. Ozark (1) William P. Johnson	• Serve as senior committee with oversight responsibility for effective governance of the Company.	5

		• Power to act for the Board of Directors between meetings	
	Rex Martin	subject to certain statutory limitations.	
	Toby S. Wilt	• Identify and monitor the appropriate structure of the Board.	
		• Select Board members for committee assignments.	
Nominating(2)	Timothy K. Ozark (1)	• Identify, evaluate, recruit and select qualified candidates for	2
	William P. Johnson	election, re-election or appointment to the Board	
	Rex Martin	of Directors.	
	Toby S. Wilt	• See also "Nominating Committee Information" below.	
Audit(2)	Mark D. Schwabero(1)	• Select the Company’s independent registered public accounting firm.	6
	Daniel B. Fitzpatrick	• Review the scope and results of the audits by the internal audit staff	
	Terry L. Gerber	and the independent registered public accounting firm.	
	Lawrence E. Hiler	• Review the adequacy of the accounting and financial controls	
	Timothy K. Ozark	and present the results to the Board of Directors with respect	
	Toby S. Wilt	to accounting practices and internal procedures. Also make	
		recommendations for improvements in such procedures.	
		• Reviw and oversight of the Company’s compliance with ethics policies	
		and regulatory requirements.	
		• See also "Report of the Audit Committee" below.	

Committee	Members	Functions	2007 Meetings
Executive Compensation and Human Resources(2)	Rex Martin(1)	• Determine compensation for senior management personnel, review the Chief Executive Officer and manage the Company's stock plans.	4
	Timothy K. Ozark	• Establish wage and benefit policies for the Company and its subsidiaries.	
	William P. Johnson	• Review human resource guidelines, policies and procedures.	
	Toby S. Wilt	• See also "Report of the Executive Compensation and Human Resource Committee" below	

(1)Committee chairman
(2)The charter of the committee is available on the Company's website at www.1stsource.com.

Meetings of the Board Of Directors and Directors' Compensation — The Board of Directors held six meetings in 2007. No incumbent directors attended fewer than 75% of the aggregate total meetings of the Board of Directors and all committees of the board of 1st Source on which they served. Directors receive fees in the amount of $18,000 per year, plus $1,000 per board meeting and $1,000 per committee meeting attended ($1,250 per Audit Committee meeting attended). Committee chairpersons also receive an additional $500 per meeting attended (an additional $1,500 per Audit Committee meeting attended and an additional $1,000 per Executive Compensation and Human Resources Committee meeting attended). Total fees paid in 2007 were $499,250.

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 2007 Annual Meeting of Shareholders attended that meeting except for Rex Martin.

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. 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 should be directed to the attention of the Chairman of the Executive and Governance Committee. The Chairman of the Executive and Governance Committee shall either (i) relay a shareholder communication to the full Board or an appropriate committee chairman, or (ii) where he feels that the communication is not appropriate to relay, at least 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 Executive and Governance Committee shall forward all recommendations for board nominees submitted by shareholders to the members of the Nominating Committee.

Nominating Committee Information

The Board of Directors formed an independent Nominating Committee in January 2004. The charter of the Nominating Committee is available on the Company's website at www.1stsource.com. All members of the Nominating Committee (see "Board Committees" above) comply with the independence requirements of the Nasdaq Stock Market listing standards.

The purpose of the Nominating Committee is to identify, evaluate, recruit and select qualified candidates for election, re-election, or appointment to the Board. The 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. In order to give the 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 about April 23, 2009. Nominations should be addressed to the attention of the Chairman, Executive and Governance Committee, c/o 1st Source Corporation.

The 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 mandatory retirement age of 70;
- Personal qualities and characteristics, accomplishments and reputation in the business community;
- Current knowledge and contacts in the communities or industries in which the Company does business;
- Ability and willingness to commit adequate time to Board and Committee matters;
- The fit of the individual's skills with those of other directors and potential directors in building a Board that is effective and responsive to the needs of the Company; and
- Diversity of viewpoints, background, experience and other demographics.

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 legal and regulatory requirements. 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 standards of the Nasdaq Stock Market and Securities and Exchange Commission rules. The Board has determined that Daniel B. Fitzpatrick, Lawrence E. Hiler, Timothy K. Ozark, Mark D. Schwabero, and Toby S. Wilt qualify as audit committee financial experts, as defined by Securities and Exchange Commission guidelines.

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 generally accepted auditing standards. 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 the Independence Standards Board, and considered the compatibility of nonaudit 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, 2007 for filing with the Securities and Exchange Commission.

Audit Committee

Mark D. Schwabero, Chairman

Daniel B. Fitzpatrick	Terry L. Gerber
Lawrence E. Hiler	Timothy K. Ozark
Toby S. Wilt	

Compensation Discussion & Analysis

Compensation Philosophy and Program

The Executive Compensation and Human Resource Committee of the Board of Directors, comprised entirely of independent directors, among other things administers the Company's executive compensation program. The purpose of the Executive Compensation and Human Resource Committee is described in its charter as follows:

- Determine compensation for senior management personnel;
- Review the Chief Executive Officer;
- Establish wage and benefit policies for the Company;
- Review general human resources guidelines, policies and procedures; and
- Oversee the Company's stock and benefit plans.

In addition, the Executive Compensation and Human Resource Committee generally reviews the recommendations of the Chief Executive Officer with regard to other executive officers and with regard to cash and stock incentives in the Executive Incentive Plan and other incentives for officers in the Company.

The Company’s compensation philosophy begins with the concept that its executive officers and key employees are all in partnership with each other and that the Company succeeds best when the officers work together in this partnership. The Company believes that executive compensa–tion programs should be designed to attract, retain and motivate executive officers and key employees who will make a valuable contribution to the whole enterprise. The Company accomplishes this through its compensation packages that include cash bonuses and equity compensation that link executive compensation to the Company’s overall performance on both a short-term and long-term basis, thereby aligning the executive’s interests with the interests of the Company’s shareholders.

Components of Compensation

To that end, the Executive Compensation and Human Resource Committee has implemented a compensation program for executive officers that includes the following components:

Base Salaries: Annual base salary is designed to compensate 1st Source executives for their qualifications, responsibilities and performance. Sala–ries are administered under the 1st Source Salary Administration Program for all exempt employees. Through this program, positions are rated under direction of the Human Resources Department and placed in a salary range. Annually, management establishes a salary performance grid that sets the range of merit increases that may be given to exempt personnel, including officers, depending on their individual performance and position in the respective salary range. The salary performance grid is reviewed, adjusted and approved annually by the Executive Compensa–tion and Human Resource Committee based on market and industry information, including data from SNL, Watson Wyatt, Crowe Chizek, the St. Joseph County Indiana Chamber of Commerce and other publicly available sources. An officer’s annual salary will increase based on his or her position in the salary range and his or her individual performance rating determined through the annual review process. The categories for performance under the Company’s Salary Administration Program are:

- o Substantially and consistently exceeds job requirements;
- o Often exceeds job requirements;
- o Meets and sometimes exceeds job requirements;
- o Meets some job requirements, improvement is required; and
- o Does not meet minimal job requirements.

Generally, management awards salary increases as determined under these guidelines in conformance with the approved salary grid. All of the named executive officers, including the Chief Executive Officer, are eligible to receive annual increases through this Salary Administration Program.

Annual Executive Incentive Plan Awards: The Company pays incentive compensation under its Executive Incentive Plan to all of the named executive officers. The Executive Incentive Plan bonuses are determined annually following the close of each year.

- o Calculation of Amount of Awards: Each executive is assigned a "partnership level" that is a percentage of the midpoint of the salary range or his or her annual base salary. Based on the executive's individual performance, an executive may earn between 100% and 300% of their "partnership level" as incentive compensation. The actual amount received by the executive as incentive compensa–tion is based upon the executive's performance against a set of individual performance goals developed by the executive's immedi–ate supervisor and the executive early each calendar year. In assessing performance against these performance goals, the Company considers the level of achievement against each objective, and whether significant or unforeseen circumstances altered the expected difficulty of achieving the results. The amount is then adjusted based upon overall corporate performance against its annual profit plan. This "partnership level" percentage rises 2.5% for every 1% the Company exceeds its profit plan and decreases 2.5% for every 1% the corporation falls short of its profit plan

- o Method of Payment and Forfeiture: 50% of the Executive Incentive Plan bonus is paid in cash at the time of the award. The other 50% is paid in book value stock that is subject to forfeiture over a five-year period based on the executive remaining with the Company and on the continued financial performance of the Company. The Company believes that this form of equity-based compensation will encourage its executives to make sound business decisions that will grow the Company, strengthen its financial position and discourage decisions designed for short-term gain only. The Company acknowledges that these equity awards could become a significant portion of an individual's net worth over time. The Company has chosen book value stock as the method of compensation because it is the one value that management of the Company can affect by its collective decisions. The earnings of the Company are either added to the book value per share or are paid out as dividends on all outstanding shares (including book value shares still subject to forfeiture). In this way, the value of the book value shares are protected from fluctuations in the stock market that are unrelated to performance of the Company. The executive generally is required to hold the book value shares until retirement except that seven years after the forfeiture risk has lapsed the executive may sell 50% of these vested book value shares back to the Company at its then book value for specific purposes: purchase of a personal residence or second home, college education tuition, or financial hardship.

§ Five-Year Long-Term Incentive Awards:

- o Calculation of Amount of Awards: The Company further rewards its executives for good long-term actions with a five-year, long-term incentive award. Every five years, the Company establishes a set of corporate goals. These change from time to time, but usually include a growth goal, a return on equity goal and some credit and operating performance goals. The executive bonuses under this program are calculated based upon a pre-determined mathematical formula that compares the Company's performance relative to its five-year plan and the executive's average award over the prior five years. The final bonus amounts are determined by multiplying the result of that calculation by the the executive’s assigned "partnership level" for long-term incentive award purposes.

- o Method of Payment: Under the Executive Incentive Plan, 25% to 50% of the long-term award is paid in cash at the time of the award, with lower cash amounts being paid to more senior executives. The remainder of the long-term award is paid to executives in market value stock, with 10% vesting at the time of the award. The remaining market value stock is subject to forfeiture over a nine-year period based upon the continued growth of the Company and the executives’ remaining with the Company.

Chief Executive Officer Performance and Compensation

Mr. Murphy’s compensation includes the same components described above for all executive officers of the Company. In addition, Mr. Murphy participates in the 1998 Performance Compensation Plan that is described below. Mr. Murphy’s performance is evaluated by the Executive Com–pensation and Human Resources Committee each year against a series of objectives determined by the Committee, some of which are derived from the Company’s annual budget plan and the Company’s long-term strategic plan as approved by the Board of Directors.

- § Base Salary: Each year, the Executive Compensation and Human Resources Committee reviews reports by SNL, Watson Wyatt and the National Executive and Senior Management Compensation Survey published by Compensation Data Surveys, Dolan Technologies Corporation, comparing compensation among comparable banks and also proxy statements for many of the companies identified. These reports are used by the Executive Compensation and Human Resources Committee to evaluate Mr. Murphy’s pay package against other pay packages for Chief Executive Officers with similar tenure at peer banks in terms of size and complexity. The Executive Compensation and Human Resources Committee checks comparables to ensure fairness as to aggregate compensation and its components. The Executive Compensation and Human Resources Committee applies the salary grid used by the Company for all exempt employees when determining Mr. Murphy’s base salary increase.

§ Base Salary Increases: The Executive Compensation and Human Resources Committee reviewed Mr. Murphy's salary in February 2008. Under his Employment Agreement, the terms of which are summarized on page 10 of this proxy statement, Mr. Murphy has had a right to receive an annual increase in base salary as determined by the Company. For 2006 Mr. Murphy was awarded a 3.2% increase. Annually, Mr. Murphy is reviewed on his success in achieving the Company's business plan and budget for the year with special focus on the Company's return on equity and absolute earnings. He is also responsible for the overall performance of the Company relative to its operating and strategic plans and for representing it to various constituencies, for its community participation and for ensuring the development of a culture of independence, integrity and long-term success. Based on Mr. Murphy's 2007 performance and the Company's performance against its annual profit plan and using the salary performance grid, the Executive Compensation and Human Resources Committee granted Mr. Murphy a 3.0% increase in base salary.

§ Annual Executive Incentive Plan Award

o Calculation of Amount of Award. Mr. Murphy's base award is calculated based on a "partnership level" of 30% of his base salary. That base bonus is subject to increase or decrease based upon performance of the Company as described above. The Company per–formed below its plan for the year 2007. Mr. Murphy generally met his qualitative and other quantitative objectives, but the Company underperformed on return on assets and return on equity. The Company exceeded its goals for credit quality and growth objectives. Based upon the formula tied to those objectives, Mr. Murphy was awarded $227,000 for his performance in 2007 under the Executive Incentive Plan.

o Method of Payment. Consistent with the Executive Incentive Plan, 50% of the award was paid in cash to Mr. Murphy at the time the award was made. The other 50% of Mr. Murphy's award is determined in book value stock, but paid to Mr. Murphy in cash as the forfeiture period elapses. Mr. Murphy and his family own a substantial amount of Company stock. As shown on page 2 of this proxy statement, Mr. Murphy owns over three million shares of Company stock directly or indirectly and therefore is already significantly invested in the Company. The Executive Compensation and Human Resources Committee believes Mr. Murphy's interest as an owner is significantly enough aligned with the shareholders that the Executive Incentive Plan's stock components can be paid in cash as the forfeiture risk lapses.

§Five-year Long-term Incentive Award:

o Calculation of Amount of Award: The Company largely achieved its long-term credit quality goals and partially achieved its profit– ability goals for the five-year period ended December 31, 2005. Based upon the mathematical formula applied to the Company's performance and the average of Mr. Murphy's annual incentive award over that five-year period, Mr. Murphy received a bonus of $74,536 in 2006.

o Method of Payment: Under the Executive Incentive Plan, 32.5% of this award was paid in cash at the time of the award, and the remaining 67.5% will be subject to forfeiture over the next nine years based upon the Company's performance. During this period, the "at risk" portion of the award is delineated in market value stock but is paid in cash to Mr. Murphy as the forfeiture restriction lapses for the same reason that the Executive Incentive Plan's annual award is eventually settled in cash.

Mr. Murphy also participates in the 1998 Performance Compensation Plan. This plan was designed so that a program could be available to the Executive Compensation and Human Resources Committee for awarding bonuses that are specifically mathematically-based and qualify for full deduction under the tax rules described below. This program may be used to replace or supplement the Executive Incentive Plan. Thus far, the Executive Compensation and

Human Resources Committee has not deemed it necessary to use this plan for anyone other than Mr. Murphy.

§ 1998 Performance Compensation Plan Award: Mr. Murphy was eligible for a cash bonus under the 1998 Performance Compensation Plan based on the Company's earning goals established by the Executive Compensation and Human Resources Committee at the beginning of 2007. The Executive Compensation and Human Resources Committee determined that these goals were attained. For 2007, the award level was set up to 1.5% of net income, which is less than the 2.5% set for previous years. Under the terms of the plan, Mr. Murphy earned a bonus of $305,390, or approximately 1.0% of net income.

Tax Deductibility of Pay

Federal income tax law caps at $1,000,000 the deductible compensation per year for each of the named executive officers in the proxy statement, 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. Consistent with this policy, 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. The Executive Compensation and Human Resources Committee will continue to review and monitor the deductibility of compensation.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary($)	Stock Awards ($) (1)	Option Awards ($)(2)	Non-Equity Incentive Plan Compensation($)	All Other Compensation($)(3)	Total
Christopher J. Murphy III	2007	$ 649,231	$ 116,142	$ -	$ 418,890	$ 71,875	$ 1,256,138
Chairman, President & CEO,	2006	614,077	111,015	-	722,651	107,547	1,555,290
1st Source, and Chairman							
& CEO, 1st Source Bank							
Larry E. Lentych	2007	216,281	25,182	-	31,500	28,913	301,876
Senior Vice President,	2006	207,385	23,367	-	45,847	35,037	311,636
Treasurer and							
Chief Financial Officer							
Wellington D. Jones III	2007	354,693	55,443	-	54,500	57,616	522,252
Executive Vice President,	2006	340,846	50,204	-	97,369	60,392	548,811
1st Source, and President							
& COO, 1st Source Bank							
John B. Griffith	2007	267,194	28,699	18,867	30,000	26,392	371,152
Senior Vice President,	2006	257,369	34,461	37,632	61,863	32,212	423,537
General Counsel and							
Secretary							
Richard Q. Stifel	2007	241,411	52,890(4)	-	41,000	32,826	368,127
Executive Vice President,	2006	234,332	142,149(4)	-	52,878	37,254	466,613

Business
Banking
Group,
1st Source
Bank

(1) Amounts included in Stock Awards for awards made prior to 2007 are computed based on the annual expense that would have been included in 1st Source's financial statements under SFAS 123R utilizing the modified prospective transition method. Amounts included in Stock Awards for awards made in 2007 are based on the 2007 annual expense that was included in 1st Source's financial statements under SFAS 123R. These amounts are computed using grant date fair values for each individual grant classified as an equity award under SFAS 123R and settlement date fair values for each individual grant classified as a liability award under SFAS 123R.

(2) Amounts included in Option Awards are computed based on the annual expense included in 1st Source's financial statements under SFAS 123R utilizing the modified prospective transition method and the grant date fair value for the applicable grant. Valuation assumptions for this grant were included in the weighted average computation of assumptions for 2001 stock option grants in Note H to 1st Source's 2001 Annual Report.

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

Name	Company Contributions to Defined Contribution Retirement Plans	Dividends on Stock Awards	Directors' Fees	Perquisites	Other Amounts of $10,000 or Less	Total
Mr. Murphy	$ 18,489	$ 15,882	$ 17,500	$ 14,460(5)(6)	$ 5,544	$ 71,785
Mr. Lentych	18,489	7,351	-	-	3,073	28,913
Mr. Jones	18,489	16,336	17,500	-	5,291	57,616
Mr. Griffith	18,489	5,181	-	-	2,722	26,392
Mr. Stifel	18,489	7,616	-	-	6,721	32,826

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

(4) Mr. Stifel turned age 65, which is considered normal retirement age for Executive Incentive Plan purposes, during 2006. Accordingly, for purposes of this table and in accordance with the requirements of SFAS 123R, the entire fair value of stock awards made to him during 2007 ($52,890) and 2006 ($50,599) and the fair value of stock awards made to him prior to 2006 but unvested as of January 1, 2006 ($90,550) have been included in his Stock Awards amounts for 2007 and 2006. Only the fair value of stock awards that vested for 2007 and 2006 performance has been included for the other named individuals. Mr. Stifel's amount is $26,790 higher for 2007 and $118,910 higher for 2006 than it would have been had it been computed on the same basis as the other individuals in the table.

(5) Mr. Murphy's perquisites included personal usage of the company plane ($4,855), company car mileage, annual medical examination and country club dues. These are valued at the incremental cost of the personal usage to the Company. For personal usage of the company plane, the incremental cost is the variable hourly cost.

(6) Mr. Murphy reimbursed the Company $5,000 for other miscellaneous incalculable personal benefits.

(7) There were no bonus awards or changes in pension value and non-qualified deferred compensation earnings for the named executive officers in 2007 or 2006.

GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	Estimated Future Payouts Under Equity Incentive Plan "Book Value" Awards (#Shares) Threshold	Target	Maximum	Grant Date Fair Value of Stock Awards
Christopher J. Murphy III	2/14/2007	-	13,577	-	$ 222,663
Larry E. Lentych	2/14/2007	-	2,796	-	45,854
Wellington D. Jones III	2/14/2007	-	5,938	-	97,383
John B. Griffith					