

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

Filed by a Party other than the Registrant

Check the appropriate box:

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

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

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(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:

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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

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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.<br>1299 Ocean Avenue, 11th Floor<br>Santa Monica, CA 90401                          | Direct (4)        | 1,818,162 | 7.30%      |
| 1st Source Bank as Trustee for the 1st Source<br>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.

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| Name                           | Age | Principal Occupation(1)<br>Nominees for Election to the Board of Directors<br>Terms Expiring in April, 2008 (April, 2011 if re-elected)  | Year in Which<br>Directorship<br>Assumed | Beneficial Ownership<br>of Equity<br>Securities(2) |               |
|--------------------------------|-----|--|--|--|---------------|
|                                |     |  |  | Common<br>Stock                                    | % of<br>Class |
| 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<br>(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  | *             |



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(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](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 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<br>Timothy K. Ozark (1)<br>William P. Johnson | • Serve as senior committee with oversight responsibility for effective governance of the Company. | 5             |

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|               |                       |  |   |
|---------------|-----------------------|--|---|
|               |                       | <ul style="list-style-type: none"> <li>• Power to act for the Board of Directors between meetings</li> </ul>   |   |
|               | Rex Martin            | subject to certain statutory limitations.  |   |
|               | Toby S. Wilt          | <ul style="list-style-type: none"> <li>• Identify and monitor the appropriate structure of the Board.</li> <li>• Select Board members for committee assignments.</li> </ul>  |   |
| Nominating(2) | Timothy K. Ozark (1)  | <ul style="list-style-type: none"> <li>• Identify, evaluate, recruit and select qualified candidates for</li> </ul>  | 2 |
|               | William P. Johnson    | election, re-election or appointment to the Board  |   |
|               | Rex Martin            | of Directors.  |   |
|               | Toby S. Wilt          | <ul style="list-style-type: none"> <li>• See also "Nominating Committee Information" below.</li> </ul>   |   |
| Audit(2)      | Mark D. Schwabero(1)  | <ul style="list-style-type: none"> <li>• Select the Company's independent registered public accounting firm.</li> </ul>  | 6 |
|               | Daniel B. Fitzpatrick | <ul style="list-style-type: none"> <li>• Review the scope and results of the audits by the internal audit staff</li> </ul>   |   |
|               | Terry L. Gerber       | and the independent registered public accounting firm.   |   |
|               | Lawrence E. Hiler     | <ul style="list-style-type: none"> <li>• Review the adequacy of the accounting and financial controls</li> </ul>   |   |
|               | 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.   |   |
|               |                       | <ul style="list-style-type: none"> <li>• Review and oversight of the Company's compliance with ethics policies</li> <li>and regulatory requirements.</li> <li>• See also "Report of the Audit Committee" below.</li> </ul> |   |

| Committee                                     | Members   | Functions   | 2007 Meetings |
|---|---|---|---------------|
| Executive Compensation and Human Resources(2) | Rex Martin(1)<br>Timothy K. Ozark<br>William P. Johnson<br>Toby S. Wilt | <ul style="list-style-type: none"> <li>• Determine compensation for senior management personnel, review the Chief Executive Officer and manage the Company's stock plans.</li> <li>• Establish wage and benefit policies for the Company and its subsidiaries.</li> <li>• Review human resource guidelines, policies and procedures.</li> <li>• See also "Report of the Executive Compensation and Human Resource Committee" below</li> </ul> | 4             |

(1)Committee chairman

(2)The charter of the committee is available on the Company's website at [www.1stsource.com](http://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](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 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](http://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 compensation 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. Salaries 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 Compensation 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 compensation is based upon the executive's performance against a set of individual performance goals developed by the executive's immediate 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 Compensation 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 performed 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<br>Principal<br>Position  | Year | Salary(\$) | Stock<br>Awards<br>(\$)(1) | Option<br>Awards<br>(\$)(2) | Non-Equity<br>Incentive<br>Plan<br>Compensation(\$) | All Other<br>Compensation(\$)(3) | Total        |
|--|------|------------|----------------------------|-----------------------------|---|----------------------------------|--------------|
| Christopher J.<br>Murphy III<br>Chairman,<br>President &<br>CEO,<br>1st Source, and<br>Chairman<br>& CEO, 1st<br>Source Bank | 2007 | \$ 649,231 | \$ 116,142                 | \$ -                        | \$ 418,890  | \$ 71,875                        | \$ 1,256,138 |
|  | 2006 | 614,077    | 111,015                    | -                           | 722,651   | 107,547                          | 1,555,290    |
| Larry E.<br>Lentych<br>Senior Vice<br>President,<br>Treasurer and<br>Chief Financial<br>Officer                              | 2007 | 216,281    | 25,182                     | -                           | 31,500  | 28,913                           | 301,876      |
|  | 2006 | 207,385    | 23,367                     | -                           | 45,847  | 35,037                           | 311,636      |
| Wellington D.<br>Jones III<br>Executive Vice<br>President,<br>1st Source, and<br>President<br>& COO, 1st<br>Source Bank      | 2007 | 354,693    | 55,443                     | -                           | 54,500  | 57,616                           | 522,252      |
|  | 2006 | 340,846    | 50,204                     | -                           | 97,369  | 60,392                           | 548,811      |
| John B.<br>Griffith<br>Senior Vice<br>President,<br>General<br>Counsel and<br>Secretary                                      | 2007 | 267,194    | 28,699                     | 18,867                      | 30,000  | 26,392                           | 371,152      |
|  | 2006 | 257,369    | 34,461                     | 37,632                      | 61,863  | 32,212                           | 423,537      |
| Richard Q.<br>Stifel<br>Executive Vice<br>President,   | 2007 | 241,411    | 52,890(4)                  | -                           | 41,000  | 32,826                           | 368,127      |
|  | 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<br>Contributions to<br>Defined<br>Contribution<br>Retirement Plans | Dividends<br>on<br>Stock<br>Awards | Directors'<br>Fees | Perquisites     | Other<br>Amounts<br>of \$10,000<br>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

Estimated Future Payouts  
Under Equity Incentive Plan  
“Book Value” Awards (#Shares)

| Name                         | Grant Date | Threshold | Target | Maximum | Grant Date<br>Fair Value<br>of Stock<br>Awards |
|------------------------------|------------|-----------|--------|---------|--|
| Christopher J. Murphy<br>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             | 2/14/2007  | -         | 3,773  | -       | 61,877   |
| Richard Q. Stifel            | 2/14/2007  | -         | 3,225  | -       | 52,890   |

Note: There were no non-equity incentive plan awards with future payouts made during 2007. Also, there were no other stock awards or option awards made during 2007.

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

## Employment Agreements:

Mr. Murphy, Mr. Jones, Mr. Lentych, and Mr. Stifel previously signed employment agreements in April 1998. Mr. Griffith originally entered into an employment agreement in March 2001. Recently, Messrs. Murphy, Jones, Stifel, Lentych, and Griffith each entered into a new employment agreement effective January 1, 2008. The primary differences between the prior agreements and the new agreements are provisions required for compliance with Section 409A of the Internal Revenue Code.

Mr. Murphy’s agreement provides for a \$640,000 base salary at January 1, 2008, 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 four agreements, Mr. Jones, Mr. Stifel, Mr. Lentych, and Mr. Griffith receive base salaries of \$359,000, \$245,206, \$219,000, and \$270,000, respectively, at January 1, 2008, with increases thereafter as may be determined by 1st Source, and cash and stock bonuses determined under the Executive Incentive Plan. As in the prior agreements, the new agreements permit gross-up payments necessary to cover possible excise tax payments by the executives and to reimburse the executives for legal fees that might be expended in enforcing the agreements’ provisions or contesting tax issues relating to the agreements’ parachute provisions.

Each of the agreements expires on December 31, 2008 but 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 Messrs. Jones, Stifel, Lentych, and Griffith will end on December 31 of the same year in which any non-renewal notice is given.

If an executive terminates employment because of any adverse change in his status, then he would continue to receive his base salary for a period of time after his termination. Mr. Murphy would receive the equivalent of 36 months of

base salary with the first six months payable in a lump sum. Messrs Jones, Stifel, Lentych, and Griffith would receive the equivalent of twelve months of base salary with the first six months payable in a lump sum.

If an executive terminates employment within one year of a change in control (which term includes any third party which becomes beneficial owner of 50% or more of the outstanding stock of 1st Source, the election of a majority of new directors in connection with a sale, merger, other business combination or contested board of directors election, or shareholder approval of any transaction which results in a disposition of all or substantially all of the assets of 1st Source), then he will receive severance pay in cash equal to 2.99 times his "Annualized Includable Compensation for the Base Period" (as defined under the Internal Revenue Code of 1986, as amended).

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.

#### Bonus Plan:

Bonuses under 1st Source's Executive Incentive Plan (EIP) are determined annually following the close of the year. The bonus is calculated based on the officer's "partnership level" adjusted for the Company's performance relative to plan and for the individual's personal performance relative to weighted objectives set by the individual with his or her supervisor at the beginning of the year. For the named executives, the base bonus is calculated at a "partnership level" ranging from 20% to 30% of their salaries. For each 1% that the Company varies from its profit plan for the year, the base bonus is adjusted up or down by 2.5%. Finally, this possible bonus is adjusted by the individual's performance ranging from 0% to 300% of the possible bonus.

Under the terms of the EIP, 50% of an Executive Incentive Plan bonus is paid in cash at the time of the award. The other 50% is paid in "Book Value" stock which is subject to forfeiture over the succeeding five (5) years. "Book Value" shares may only be sold to 1st Source, and such sale is mandatory in the event of death, retirement, disability or termination of employment. 1st Source may terminate or extend the Plan at any time. The forfeiture lapses ratably for each year the employee remains with the Company and for each year, or period of years, the Company grows its net income by a targeted minimum per year. During this period, the "at risk" portion of the bonus, delineated in book value stock, is transferred to the participant as the forfeiture period lapses. In Mr. Murphy's case, while determined in book value stock, the award is paid in cash as the forfeiture lapses.

Due to the Company's performance in 2002, the remaining 20% of the award made in 1997 would be forfeited. In early 2003 Mr. Murphy asked that the forfeiture period for these awards be extended for four (4) years for all members of the Executive Incentive Plan except those most senior officers (including Mr. Murphy and Mr. Jones) of the Corporation with credit and management authority bearing full responsibility for the Com-pany's performance. The recommendation for the extension was made in an effort to encourage the management team throughout the Company to accelerate their efforts to return 1st Source to its historic earnings levels. This extension was approved by the Board of Directors and the shareholders. The Board and shareholders also approved extensions of the forfeiture period for the awards made in 1998, 1999, 2000 and 2001 by four (4) years for all members of the Executive Incentive Plan except Mr. Murphy, who forfeited the remaining 20% and 60%, respectively of the 1997 and 1998 award in January 2003 and January 2004 and the remaining 100% of the 1999, 2000 and 2001 awards in January 2005, January 2006 and January 2007, respectively. All other members of the Executive Incentive Plan forfeited the remaining 20% of the 1997 awards in January 2007 and the remaining 60% of the 1998 awards in January 2008.





Mr. Murphy was also eligible for a cash bonus under the 1998 Performance Compensation Plan based on goals established at the beginning of each year. For 2007, the award level set was up to 1.5% of net income, less than the 2.5% set for previous years. Based on Mr. Murphy’s performance, Mr. Murphy earned a bonus of approximately 1.0% of net income, or \$305,390 for 2007, compared to a bonus of approximately 1.27% of net income, or \$500,000, for 2006.

The amounts shown in the Stock Awards column of the Summary Compensation Table for awards related to periods before 2006 represent the annual expense that would have been included in 1st Source’s financial statements under SFAS 123R using the modified prospective transition method. The amounts shown in the Stock Awards column of the summary compensation table for awards related to 2006 represent the 2007 annual expense that was included in 1st Source’s financial statements under SFAS 123R. The option award amount shown in the Option Awards column of the Summary Compensation Table represents the expense of the related option award computed in accordance with SFAS 123R. The amounts shown in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table represent the annual cash awards under the Plan and the 1998 Performance Compensation Plan award. Estimated future payout amounts for 2007 book value 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 Executive Incentive Plan receive dividends at the same time and in the same amount as all other holders of 1st Source common stock.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

| Name                      | Option Awards                                       |   |   |       |                 | Stock Awards   |  |  | Equity Incentive Plan Awards:                                  |
|---------------------------|---|---|---|-------|-----------------|--|--|--|--|
|                           | Number of Securities Underlying Unexercised Options | Number of Securities Underlying Exercised Options | Number of Securities Underlying Unexercised Options | Price | Expiration Date | Market Value of Shares of Stock That Have Not Vested (1) | Market Value of Shares of Stock That Have Not Vested | Unearned Shares That Have Not Vested (1) | Market or Payout Value of Unearned Shares That Have Not Vested |
| Christopher J. Murphy III | 133,403   | -   | -   | 28.30 | 7/21/08         |  |  |  |  |
| “Book Value” Shares       |   |   |   |       |                 |  |  | 23,843                                   | \$ 426,074   |
| “Market Value” Shares     |   |   |   |       |                 | 6,746  | \$ 116,773   |  |  |
|                           | 40,021  | -   | -   | 28.30 | 7/21/08         |  |  |  |  |

|                       |  |       |        |  |                |
|-----------------------|--|-------|--------|--|----------------|
| Larry E. Lentych      |  |       |        |  |                |
| "Book Value"          |  |       |        |  |                |
| Shares                |  |       |        |  | 12,383 221,284 |
| "Market Value" Shares |  | 1,125 | 19,474 |  |                |

|                         |        |       |        |       |                |
|-------------------------|--------|-------|--------|-------|----------------|
| Wellington D. Jones III |        |       |        |       |                |
|                         | 66,702 | -     | -      | 28.30 | 7/21/08        |
| "Book Value"            |        |       |        |       |                |
| Shares                  |        |       |        |       | 26,903 480,757 |
| "Market Value" Shares   |        | 3,072 | 53,176 |       |                |

|                       |        |     |       |       |               |
|-----------------------|--------|-----|-------|-------|---------------|
| John B. Griffith      |        |     |       |       |               |
|                       | 27,500 | -   | -     | 20.86 | 7/2/11        |
| "Book Value"          |        |     |       |       |               |
| Shares                |        |     |       |       | 9,237 165,065 |
| "Market Value" Shares |        | 494 | 8,551 |       |               |

|                       |        |       |        |       |                |
|-----------------------|--------|-------|--------|-------|----------------|
| Richard Q. Stifel     |        |       |        |       |                |
|                       | 40,021 | -     | -      | 28.30 | 7/21/08        |
| "Book Value"          |        |       |        |       |                |
| Shares                |        |       |        |       | 12,881 230,183 |
| "Market Value" Shares |        | 1,205 | 20,859 |       |                |

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

|              | "Book Value" Shares | "Market Value" Shares |
|--------------|---------------------|-----------------------|
| Mr. Murphy   | 12/2007 - 12/2011   | 12/2007 - 12/2014     |
| Mr. Lentych  | 12/2007 - 12/2011   | 12/2007 - 12/2014     |
| Mr. Jones    | 12/2007 - 12/2011   | 12/2007 - 12/2014     |
| Mr. Griffith | 12/2007 - 12/2011   | 12/2007 - 12/2014     |
| Mr. Stifel   | 12/2007 - 12/2011   | 12/2007 - 12/2014     |

Note: Shares vesting based on calendar year results (e.g., 12/2007 above is based on 2007 results) are not released until financial results are publicly announced early in the following year.

## OPTION EXERCISES AND STOCK VESTED

| Name                      | Option Awards                               |                               | Number of<br>“Book<br>Value” shares<br>acquired on<br>vesting | Stock Awards  |                              |
|---------------------------|---|-------------------------------|---|---|------------------------------|
|                           | Number of<br>Shares Acquired<br>on Exercise | Value Realized<br>on Exercise |   | Number of<br>“Market<br>Value” Shares<br>Acquired<br>on Vesting | Value Realized<br>on Vesting |
| Christopher J. Murphy III | -   | -                             | 2,820   | 1,842   | \$ 105,431                   |
| Larry E. Lentych          | -   | -                             | 877   | 394   | 27,042                       |
| Wellington D. Jones III   | -   | -                             | 1,961   | 762   | 56,643                       |
| John B. Griffith          | -   | -                             | 1,258   | 601   | 39,941                       |
| Richard Q. Stifel         | -   | -                             | 986   | 298   | 25,745                       |

## DIRECTOR COMPENSATION

| Name                         | Fees Earned or Paid in Cash    | Total     |
|------------------------------|--------------------------------|-----------|
| David C. Bowers              | \$ 18,000                      | \$ 18,000 |
| Daniel B. Fitzpatrick        | 38,750                         | 38,750    |
| Terry L. Gerber              | 45,250                         | 45,250    |
| Lawrence E. Hiler            | 43,750                         | 43,750    |
| William P. Johnson           | 51,500                         | 51,500    |
| Wellington D. Jones<br>III   | See Summary Compensation Table |           |
| Craig A. Kapson              | 31,000                         | 31,000    |
| Rex Martin                   | 40,750                         | 40,750    |
| Dane A. Miller, Ph.D.        | 37,000                         | 37,000    |
| Christopher J. Murphy<br>III | See Summary Compensation Table |           |
| Timothy K. Ozark             | 53,500                         | 53,500    |
| John T. Phair                | 28,000                         | 28,000    |
| Mark D. Schwabero            | 43,750                         | 43,750    |
| Toby S. Wilt                 | 33,000                         | 33,000    |

Note: There were no stock awards, option awards, non-equity incentive plan compensation, pension or other deferred compensation earnings, or other com-pensation paid to non-employee directors in 2007.

## 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

Rex Martin, Chairman  
William P. Johnson                      Timothy K. Ozark  
Toby S. Wilt

Compensation Committee Interlocks and Insider Participation

The persons named above were the only persons who served on the Executive Compensation and Human Resources Committee of the Board of Directors during the last fiscal year.

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, except that Mr. Ozark had one late report for two transactions and Mr. Fitzpatrick had one late report for one transaction.

## 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, 2007 and the seven (7) preceding years, the audit was performed by Ernst & Young LLP. Fees for professional services provided by Ernst & Young LLP for the last two years were as follows:

|                    |           | 2007           | 2006              |
|--------------------|-----------|----------------|-------------------|
| Audit Fees         | \$        | 464,800        | \$ 539,000        |
| Audit-Related Fees |           | 70,520         | 71,720            |
| Tax Fees           |           | -              | 25,000            |
| Other Fees         |           | -              | 3,000             |
| <b>Total</b>       | <b>\$</b> | <b>535,320</b> | <b>\$ 638,720</b> |

Audit fees included fees associated with the annual audit and the reviews of 1st Source's quarterly reports on Form 10-Q. Audit-related fees included fees for pension and statutory audits and accounting consultations. Tax fees included review of 1st Source's federal and state tax returns and tax advice on other federal and state tax issues. Other fees included a subscription to an online accounting reference site.

In 2003 the Audit Committee adopted an Audit and Non-Audit Services Pre-Approval Policy covering services performed by 1st Source's independent registered public accounting firm. Under this policy the annual audit services engagement terms and fees are subject to the specific pre-approval of the Audit Committee. The Audit Committee will approve, if necessary, any changes in terms, conditions and fees resulting from changes in audit scope, company structure, or other matters. Any other services provided by the independent registered public accounting firm will require specific pre-approval by the Audit Committee unless the type of service has received general pre-approval from the Audit Committee. In addition, a pre-approved type of service will require specific pre-approval if the current year fee level for the type of service will exceed the approved fee level established annually by the Audit Committee. Requests or applications to provide services that require approval by the Audit Committee will be submitted to the Audit Committee by both the independent registered public accounting firm and the Chief Financial Officer, and must include a joint statement as to whether, in their view, the request or application is consistent with the SEC's rules on auditor independence. All fees paid to the independent registered public accounting firm for their 2007 and 2006 services were pre-approved by the Audit Committee in accordance with this policy.

Representatives of the firm of Ernst & Young LLP will be available to respond to questions during the Annual Meeting. These representatives have indicated that they do not presently intend to make a statement at the Annual Meeting. 1st Source intends to retain Ernst & Young LLP as its independent registered public accounting firm for the year ending December 31, 2008.

## 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 5, 2008.

## Additional Information

As to the proposals presented for approval, a plurality of the shares voted is required for approval.

A COPY OF 1ST SOURCE'S MOST RECENT ANNUAL REPORT ON FORM 10-K WILL BE PROVIDED, WITHOUT CHARGE (EXCEPT FOR EXHIBITS), ON WRITTEN REQUEST TO: TREASURER, 1ST SOURCE CORPORATION, POST OFFICE BOX 1602, SOUTH BEND, INDIANA 46634.

A copy of 1st Source's Annual Report on Form 10-K is furnished herewith to Shareholders for the calendar year ended December 31, 2007, 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 14, 2008





THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints Christopher J. Murphy III, Wellington D. Jones III, and John B. Griffith 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 on April 24, 2008 and at any and all adjournments thereof.

1. Election of Directors.

FOR all nominees listed below (except as marked to the contrary)                       WITHHOLD AUTHORITY to vote for all nominees listed below.

INSTRUCTION: to withhold authority to vote for any individual nominee, strike a line through or otherwise strike the nominee's name in the list below.

Term Expires April, 2011: Lawrence E. Hiler      Rex Martin      Christopher J. Murphy III Timothy K. Ozark

2. Such Other Business as May Properly 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.

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.

Please sign exactly as shares are registered. When shares are held by joint tenants, both should sign. When signing as attorney, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by president or other authorized officer. If a partnership, please sign in partnership name by authorized person.

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Please mark, sign, date and return the Proxy promptly using the enclosed envelope.

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Signature\_\_\_\_\_

Signature (if held jointly)\_\_\_\_\_

Date\_\_\_\_\_

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