1ST SOURCE CORP
Form 10-Q
April 23, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2015

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 0-6233

(Exact name of registrant as specified in its charter)

INDIANA	35-1068133
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 North Michigan Street	
South Bend, IN	46601
(Address of principal executive offices)	(Zip Code)

(574) 235-2000
(Registrant's telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
o Yes x No

Number of shares of common stock outstanding as of April 17, 2015 — 23,853,087 shares

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

	March 31, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$58,196	$64,834
Federal funds sold and interest bearing deposits with other banks	11,068	1,356
Investment securities available-for-sale (amortized cost of $778,597 and $776,057 at March 31, 2015 and December 31, 2014, respectively)	796,604	791,118
Other investments	20,561	20,801
Trading account securities	208	205
Mortgages held for sale	22,820	13,604
Loans and leases, net of unearned discount:		
Commercial and agricultural	712,293	710,758
Auto and light truck	402,389	397,902
Medium and heavy duty truck	240,187	247,153
Aircraft financing	696,943	727,665
Construction equipment financing	439,530	399,940
Commercial real estate	615,555	616,587
Residential real estate	443,375	445,759
Consumer	150,860	142,810
Total loans and leases	3,701,132	3,688,574
Reserve for loan and lease losses	(85,098)	(85,068)
Net loans and leases	3,616,034	3,603,506
Equipment owned under operating leases, net	82,640	74,143
Net premises and equipment	49,701	50,328
Goodwill and intangible assets	85,158	85,371
Accrued income and other assets	119,394	124,692
Total assets	$4,862,384	$4,829,958
LIABILITIES		
Deposits:		
Noninterest bearing	$835,403	$796,241
Interest bearing	3,035,057	3,006,619
Total deposits	3,870,460	3,802,860
Short-term borrowings:		
Federal funds purchased and securities sold under agreements to repurchase	123,075	138,843
Other short-term borrowings	77,071	106,979
Total short-term borrowings	200,146	245,822
Long-term debt and mandatorily redeemable securities	57,515	56,232
Subordinated notes	58,764	58,764
Accrued expenses and other liabilities	50,994	51,807
Total liabilities	4,237,879	4,215,485
SHAREHOLDERS' EQUITY		

Preferred stock; no par value		
Authorized 10,000,000 shares; none issued or outstanding	—	—
Common stock; no par value		
Authorized 40,000,000 shares; issued 25,641,887 at March 31, 2015 and December 31, 2014	346,535	346,535
Retained earnings	311,207	302,242
Cost of common stock in treasury (1,788,805 shares at March 31, 2015 and 1,779,442 shares at December 31, 2014)	(44,484)	(43,711)
Accumulated other comprehensive income	11,247	9,407
Total shareholders’ equity	624,505	614,473
Total liabilities and shareholders’ equity	$4,862,384	$4,829,958

The accompanying notes are a part of the consolidated financial statements.

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1st SOURCE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited - Dollars in thousands, except per share amounts)

	Three Months Ended March 31,	
	2015	2014
Interest income:		
Loans and leases	$39,604	$38,914
Investment securities, taxable	3,004	3,345
Investment securities, tax-exempt	769	819
Other	255	277
Total interest income	43,632	43,355
Interest expense:		
Deposits	2,559	2,971
Short-term borrowings	103	136
Subordinated notes	1,055	1,055
Long-term debt and mandatorily redeemable securities	479	575
Total interest expense	4,196	4,737
Net interest income	39,436	38,618
Provision for loan and lease losses	357	804
Net interest income after provision for loan and lease losses	39,079	37,814
Noninterest income:		
Trust fees	4,557	4,476
Service charges on deposit accounts	2,197	2,066
Debit card income	2,399	2,232
Mortgage banking income	1,251	1,334
Insurance commissions	1,305	1,563
Equipment rental income	5,079	4,082
Gains on investment securities available-for-sale	—	963
Other income	2,963	2,682
Total noninterest income	19,751	19,398
Noninterest expense:		
Salaries and employee benefits	20,925	19,482
Net occupancy expense	2,461	2,437
Furniture and equipment expense	4,336	4,237
Depreciation - leased equipment	4,088	3,249
Professional fees	870	1,128
Supplies and communication	1,406	1,392
FDIC and other insurance	849	864
Business development and marketing expense	1,049	1,684
Loan and lease collection and repossession expense	363	(494)
Other expense	1,714	1,994
Total noninterest expense	38,061	35,973
Income before income taxes	20,769	21,239

Income tax expense	7,258	7,607
Net income	$13,511	$13,632
Per common share:		
Basic net income per common share	$0.56	$0.55
Diluted net income per common share	$0.56	$0.55
Dividends	$0.18	$0.17
Basic weighted average common shares outstanding	23,871,157	24,317,446
Diluted weighted average common shares outstanding	23,871,157	24,317,446

The accompanying notes are a part of the consolidated financial statements.

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1st SOURCE CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited - Dollars in thousands)

	Three Months Ended March 31, 2015	2014
Net income	$13,511	$13,632
Other comprehensive income (loss):		
Change in unrealized appreciation (depreciation) of available-for-sale securities	2,946	4,016
Reclassification adjustment for realized (gains) losses included in net income	—	(963)
Income tax effect	(1,106)	(1,146)
Other comprehensive income (loss), net of tax	1,840	1,907
Comprehensive income	$15,351	$15,539

The accompanying notes are a part of the consolidated financial statements.

1st SOURCE CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited - Dollars in thousands, except per share amounts)

	Preferred Stock	Common Stock	Retained Earnings	Cost of Common Stock in Treasury	Accumulated Other Comprehensive Income (Loss), Net	Total
Balance at January 1, 2014	$—	$346,535	$261,626	$(29,364)	$ 6,581	$585,378
Net income	—	—	13,632	—	—	13,632
Other comprehensive income	—	—	—	—	1,907	1,907
Issuance of 61,978 common shares under stock based compensation awards, including related tax effects	—	—	(243)	1,480	—	1,237
Cost of 48,607 shares of common stock acquired for treasury	—	—	—	(1,401)	—	(1,401)
Common stock dividend ($0.17 per share)	—	—	(4,167)	—	—	(4,167)
Balance at March 31, 2014	$—	$346,535	$270,848	$(29,285)	$ 8,488	$596,586
Balance at January 1, 2015	$—	$346,535	$302,242	$(43,711)	$ 9,407	$614,473
Net income	—	—	13,511	—	—	13,511
Other comprehensive income	—	—	—	—	1,840	1,840
Issuance of 85,783 common shares under stock based compensation awards, including related tax effects	—	—	(221)	2,191	—	1,970
Cost of 95,146 shares of common stock acquired for treasury	—	—	—	(2,964)	—	(2,964)

Common stock dividend ($0.18 per share)	—	—	(4,325)	—	—	(4,325)
Balance at March 31, 2015	$—	$346,535	$311,207	$(44,484)	$ 11,247	$624,505

The accompanying notes are a part of the consolidated financial statements.

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1st SOURCE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited - Dollars in thousands)

	Three Months Ended March 31, 2015	2014
Operating activities:		
Net income	$13,511	$13,632
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	357	804
Depreciation of premises and equipment	1,148	1,189
Depreciation of equipment owned and leased to others	4,088	3,249
Amortization of investment securities premiums and accretion of discounts, net	1,111	1,044
Amortization of mortgage servicing rights	393	286
Deferred income taxes	(139)	(905)
Gains on investment securities available-for-sale	—	(963)
Originations of loans held for sale, net of principal collected	(34,517)	(22,470)
Proceeds from the sales of loans held for sale	26,347	18,373
Net gain on sale of loans held for sale	(1,046)	(785)
Net gain on sale of other real estate and repossessions	(564)	(760)
Change in trading account securities	(3)	—
Change in interest receivable	(224)	(714)
Change in interest payable	(250)	100
Change in other assets	167	(812)
Change in other liabilities	5,120	905
Other	230	1,271
Net change in operating activities	15,729	13,444
Investing activities:		
Proceeds from sales of investment securities	—	1,236
Proceeds from maturities of investment securities	19,807	64,251
Purchases of investment securities	(23,458)	(69,412)
Net change in other investments	240	—
Loans sold or participated to others	1,373	689
Net change in loans and leases	(19,203)	(33,676)
Net change in equipment owned under operating leases	(12,585)	(750)
Purchases of premises and equipment	(520)	(421)
Proceeds from sales of other real estate and repossessions	5,654	5,005
Net change in investing activities	(28,692)	(33,078)
Financing activities:		
Net change in demand deposits and savings accounts	37,774	(6,167)
Net change in time deposits	29,826	60,940
Net change in short-term borrowings	(45,676)	(16,484)
Proceeds from issuance of long-term debt	—	5,647
Payments on long-term debt	(459)	(6,096)
Net proceeds from issuance of treasury stock	1,970	1,237
Acquisition of treasury stock	(2,964)	(1,401)
Cash dividends paid on common stock	(4,434)	(4,267)
Net change in financing activities	16,037	33,409
Net change in cash and cash equivalents	3,074	13,775

Cash and cash equivalents, beginning of year	66,190	80,052
Cash and cash equivalents, end of period	$69,264	$93,827
Supplemental Information:		
Non-cash transactions:		
Loans transferred to other real estate and repossessed assets	$4,945	$5,444
Common stock matching contribution to Employee Stock Ownership and Profit Sharing Plan	500	—

The accompanying notes are a part of the consolidated financial statements.

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1ST SOURCE CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

1st Source Corporation is a bank holding company headquartered in South Bend, Indiana that provides, through its subsidiaries (collectively referred to as “1st Source” or “the Company”), a broad array of financial products and services.
The accompanying unaudited consolidated financial statements reflect all adjustments (all of which are normal and recurring in nature) which are, in the opinion of management, necessary for a fair presentation of the consolidated financial position, the results of operations, changes in comprehensive income, changes in shareholders’ equity, and cash flows for the periods presented. These unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission (SEC) and, therefore, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been omitted.
The Notes to the Consolidated Financial Statements appearing in 1st Source Corporation’s Annual Report on Form 10-K (2014 Annual Report), which include descriptions of significant accounting policies, should be read in conjunction with these interim financial statements. The Consolidated Statement of Financial Condition at December 31, 2014 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. Certain amounts in the prior period consolidated financial statements have been reclassified to conform to the current year presentation.

Note 2. Recent Accounting Pronouncements

Consolidations: In February 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-02 “Consolidation (Topic 810) - Amendments to the Consolidation Analysis.” ASU 2015-02 includes amendments that are intended to improve targeted areas of consolidation for legal entities including reducing the number of consolidation models from four to two and simplifying the FASB Accounting Standards Codification. ASU 2015-02 is effective for annual and interim periods within those annual periods, beginning after December 15, 2015. The amendments may be applied retrospectively in previously issued financial statements for one or more years with a cumulative effect adjustment to retained earnings as of the beginning of the first year restated. Early adoption is permitted, including adoption in an interim period. The Company is assessing the impact of ASU 2015-02 on its accounting and disclosures.
Troubled Debt Restructurings by Creditors: In August 2014, the FASB issued ASU No. 2014-14 “Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40) - Classification of Certain Government Guaranteed Mortgage Loans upon Foreclosure.” ASU 2014-14 requires that a mortgage loan be derecognized and a separate other receivable be recognized upon foreclosure if certain conditions are met. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. ASU 2014-14 is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2014. The amendments can be applied using either a prospective transition method or a modified retrospective transition method. Early adoption is permitted. The Company adopted ASU 2014-14 on January 1, 2015 and it did not have an impact on its accounting and disclosures.
Share Based Payments: In June 2014, the FASB issued ASU No. 2014-12 “Compensation - Stock Compensation (Topic 718) - Accounting for Share Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period.” ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 is effective for interim and annual periods beginning after December 15, 2015. The amendments can be applied prospectively to all awards granted or modified after the effective date or retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented and to all new or modified awards thereafter. Early adoption is permitted. The Company has determined that ASU 2014-12 will not have an impact on its accounting and disclosures.
Repurchase to Maturity Transactions, Repurchase Financings and Disclosures: In June 2014, the FASB issued ASU No. 2014-11 “Transfers and Servicing (Topic 860) - Repurchase to Maturity Transactions, Repurchase Financings, and

Disclosures." ASU 2014-11 aligns the accounting for repurchase to maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. ASU 2014-11 is effective for the first interim or annual period beginning after December 15, 2014. In addition the disclosure of certain transactions accounted for as a sale is effective for the first interim or annual period beginning on or after December 15, 2014, and the disclosure for transactions accounted for as secured borrowings is required for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. Early adoption is prohibited. The Company adopted ASU 2014-11 on January 1, 2015 and it did not have an impact on its accounting and disclosures.

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Revenue from Contracts with Customers: In May 2014, the FASB issued ASU No. 2014-09 “Revenue from Contracts with Customers (Topic 606).” The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The amendments can be applied retrospectively to each prior reporting period or retrospectively with the cumulative effect of initially applying this Update recognized at the date of initial application. Early application is not permitted. The Company is assessing the impact of ASU 2014-09 on its accounting and disclosures.

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure: In January 2014, the FASB issued ASU No. 2014-04 “Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40) - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure.” ASU 2014-04 clarifies when an in substance repossession or foreclosure occurs and requires interim and annual disclosures of the amount of foreclosed residential real estate property and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. ASU 2014-04 is effective either on a modified retrospective transition method or a prospective transition method for interim and annual periods beginning after December 15, 2014. Early adoption is permitted. The Company adopted ASU 2014-04 on January 1, 2015 and it did not have a material impact on its disclosures.

Accounting for Investments in Qualified Affordable Housing Projects: In January 2014, the FASB issued ASU No. 2014-01 “Investments - Equity method and Joint Ventures (Topic 323) - Accounting for Investments in Qualified Affordable Housing Projects.” ASU 2014-01 allows investors to use the proportional amortization method to account for investments in limited liability entities that manage or invest in affordable housing projects that qualify for low-income housing tax credits if certain conditions are met. ASU 2014-01 is effective retrospectively for interim and annual periods in fiscal years that begin after December 15, 2014. Early adoption is permitted. The Company adopted ASU 2014-01 on January 1, 2015 and it did not have a material impact on its accounting and disclosures for affordable housing projects.

Note 3. Investment Securities

The following table shows investment securities available-for-sale.

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2015				
U.S. Treasury and Federal agencies securities	$386,301	$ 4,457	$ (402)	$390,356
U.S. States and political subdivisions securities	118,503	3,659	(99)	122,063
Mortgage-backed securities — Federal agencies	239,476	5,623	(491)	244,608
Corporate debt securities	31,624	422	(20)	32,026
Foreign government and other securities	800	8	—	808
Total debt securities	776,704	14,169	(1,012)	789,861
Marketable equity securities	1,893	4,852	(2)	6,743
Total investment securities available-for-sale	$778,597	$ 19,021	$ (1,014)	$796,604
December 31, 2014				
U.S. Treasury and Federal agencies securities	$371,878	$ 3,593	$ (1,968)	$373,503
U.S. States and political subdivisions securities	121,510	3,392	(214)	124,688
Mortgage-backed securities — Federal agencies	248,299	5,490	(781)	253,008

Corporate debt securities	31,677	281	(26)	31,932
Foreign government and other securities	800	11	—	811
Total debt securities	774,164	12,767	(2,989)	783,942
Marketable equity securities	1,893	5,285	(2)	7,176
Total investment securities available-for-sale	$776,057	$ 18,052	$ (2,991)	$791,118

At March 31, 2015 and December 31, 2014, the residential mortgage-backed securities held by the Company consisted primarily of GNMA, FNMA and FHLMC pass-through certificates which are guaranteed by those respective agencies of the United States government (Government Sponsored Enterprise, GSEs).

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The following table shows the contractual maturities of investments in securities available-for-sale at March 31, 2015. Expected maturities will differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	$88,873	$89,575
Due after one year through five years	420,722	427,387
Due after five years through ten years	27,633	28,291
Due after ten years	—	—
Mortgage-backed securities	239,476	244,608
Total debt securities available-for-sale	$776,704	$789,861

The following table shows the gross realized gains and losses on sale of securities from the securities available-for-sale portfolio, including marketable equity securities. Realized gains and losses on the sales of all securities are computed using the specific identification cost basis. The gross gains for the three months ended March 31, 2014 reflect the sale of marketable equity securities.

	Three Months Ended March 31,	
(Dollars in thousands)	2015	2014
Gross realized gains	$—	$963
Gross realized losses	—	—
Net realized gains (losses)	$—	$963

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

	Less than 12 Months		12 months or Longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2015						
U.S. Treasury and Federal agencies securities	$—	$—	$104,605	$(402)	$104,605	$(402)
U.S. States and political subdivisions securities	9,010	(72)	2,083	(27)	11,093	(99)
Mortgage-backed securities - Federal agencies	11,841	(50)	22,971	(441)	34,812	(491)
Corporate debt securities	—	—	980	(20)	980	(20)
Foreign government and other securities	—	—	—	—	—	—
Total debt securities	20,851	(122)	130,639	(890)	151,490	(1,012)
Marketable equity securities	—	—	3	(2)	3	(2)
Total investment securities available-for-sale	$20,851	$(122)	$130,642	$(892)	$151,493	$(1,014)
December 31, 2014						
U.S. Treasury and Federal agencies securities	$54,944	$(148)	$115,195	$(1,820)	$170,139	$(1,968)
U.S. States and political subdivisions securities	16,805	(112)	8,333	(102)	25,138	(214)
Mortgage-backed securities - Federal agencies	21,754	(62)	32,781	(719)	54,535	(781)
Corporate debt securities	3,072	(26)	—	—	3,072	(26)
Foreign government and other securities	—	—	—	—	—	—
Total debt securities	96,575	(348)	156,309	(2,641)	252,884	(2,989)
Marketable equity securities	—	—	3	(2)	3	(2)
Total investment securities available-for-sale	$96,575	$(348)	$156,312	$(2,643)	$252,887	$(2,991)

The initial indication of other-than-temporary-impairment (OTTI) for both debt and equity securities is a decline in fair value below amortized cost. Quarterly, the impaired securities are analyzed on a qualitative and quantitative basis in determining OTTI. Declines in the fair value of available-for-sale debt securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of impairment related to other factors is recognized in other comprehensive income. In estimating OTTI impairment losses, the Company considers among other things, (i) the length of time and the extent to which fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) whether it is more likely than not that the Company will not have to sell any such securities before a recovery of cost.

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There were no OTTI write-downs in 2015 or 2014.
At March 31, 2015, the Company does not have the intent to sell any of the available-for-sale securities in the table above and believes that it is more likely than not, that it will not have to sell any such securities before an anticipated recovery of cost. Primarily the unrealized losses on debt securities are due to increases in market rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover on all debt securities as they approach their maturity date or re-pricing date or if market yields for such investments decline. The Company does not believe any of the securities are impaired due to reasons of credit quality.
At March 31, 2015 and December 31, 2014, investment securities with carrying values of $230.65 million and $231.50 million, respectively, were pledged as collateral for security repurchase agreements and for other purposes.
Note 4. Loan and Lease Financings
The Company evaluates loans and leases for credit quality at least annually but more frequently if certain circumstances occur (such as material new information which becomes available and indicates a potential change in credit risk). The Company uses two methods to assess credit risk: loan or lease credit quality grades and credit risk classifications. The purpose of the loan or lease credit quality grade is to document the degree of risk associated with individual credits as well as inform management of the degree of risk in the portfolio taken as a whole. Credit risk classifications are used to categorize loans by degree of risk and to designate individual or committee approval authorities for higher risk credits at the time of origination. Credit risk classifications include categories for: Acceptable, Marginal, Special Attention, Special Risk, Restricted by Policy, Regulated and Prohibited by Law.
All loans and leases, except residential real estate loans and consumer loans, are assigned credit quality grades on a scale from 1 to 12 with grade 1 representing superior credit quality. The criteria used to assign grades to extensions of credit that exhibit potential problems or well-defined weaknesses are primarily based upon the degree of risk and the likelihood of orderly repayment, and their effect on the Company’s safety and soundness. Loans or leases graded 7 or weaker are considered “special attention” credits and, as such, relationships in excess of $100,000 are reviewed quarterly as part of management’s evaluation of the appropriateness of the reserve for loan and lease losses. Grade 7 credits are defined as “watch” and contain greater than average credit risk and are monitored to limit the exposure to increased risk; grade 8 credits are “special mention” and, following regulatory guidelines, are defined as having potential weaknesses that deserve management’s close attention. Credits that exhibit well-defined weaknesses and a distinct possibility of loss are considered “classified” and are graded 9 through 12 corresponding to the regulatory definitions of “substandard” (grades 9 and 10) and the more severe “doubtful” (grade 11) and “loss” (grade 12).
The following table shows the credit quality grades of the recorded investment in loans and leases, segregated by class.

	Credit Quality Grades		
(Dollars in thousands)	1-6	7-12	Total
March 31, 2015			
Commercial and agricultural	$696,045	$16,248	$712,293
Auto and light truck	382,295	20,094	402,389
Medium and heavy duty truck	237,164	3,023	240,187
Aircraft financing	670,440	26,503	696,943
Construction equipment financing	432,926	6,604	439,530
Commercial real estate	593,959	21,596	615,555
Total	$3,012,829	$94,068	$3,106,897
December 31, 2014			
Commercial and agricultural	$683,169	$27,589	$710,758
Auto and light truck	380,425	17,477	397,902
Medium and heavy duty truck	243,798	3,355	247,153
Aircraft financing	691,018	36,647	727,665
Construction equipment financing	393,965	5,975	399,940
Commercial real estate	592,787	23,800	616,587

Total	$2,985,162	$114,843	$3,100,005

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For residential real estate and consumer loans, credit quality is based on the aging status of the loan and by payment activity. The following table shows the recorded investment in residential real estate and consumer loans by performing or nonperforming status. Nonperforming loans are those loans which are on nonaccrual status or are 90 days or more past due.

(Dollars in thousands)	Performing	Nonperforming	Total
March 31, 2015			
Residential real estate	$441,080	$2,295	$443,375
Consumer	150,531	329	150,860
Total	$591,611	$2,624	$594,235
December 31, 2014			
Residential real estate	$442,918	$2,841	$445,759
Consumer	142,476	334	142,810
Total	$585,394	$3,175	$588,569

The following table shows the recorded investment of loans and leases, segregated by class, with delinquency aging and nonaccrual status.

(Dollars in thousands)	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due and Accruing	Total Accruing Loans	Nonaccrual	Total Financing Receivables
March 31, 2015							
Commercial and agricultural	$705,062	$440	$—	$—	$705,502	$6,791	$712,293
Auto and light truck	402,165	194	9	—	402,368	21	402,389
Medium and heavy duty truck	240,150	—	—	—	240,150	37	240,187
Aircraft financing	678,045	8,350	3,116	—	689,511	7,432	696,943
Construction equipment financing	438,792	—	—	—	438,792	738	439,530
Commercial real estate	611,649	—	—	—	611,649	3,906	615,555
Residential real estate	439,694	1,088	298	102	441,182	2,193	443,375
Consumer	149,605	839	87	88	150,619	241	150,860
Total	$3,665,162	$10,911	$3,510	$190	$3,679,773	$21,359	$3,701,132
December 31, 2014							
Commercial and agricultural	$696,351	$—	$123	$—	$696,474	$14,284	$710,758
Auto and light truck	397,815	48	1	—	397,864	38	397,902
Medium and heavy duty truck	247,097	—	—	—	247,097	56	247,153
Aircraft financing	699,054	541	15,597	—	715,192	12,473	727,665
Construction equipment financing	396,821	999	1,369	—	399,189	751	399,940
Commercial real estate	611,780	—	—	—	611,780	4,807	616,587
Residential real estate	441,508	1,099	311	873	443,791	1,968	445,759
Consumer	141,577	676	223	109	142,585	225	142,810
Total	$3,632,003	$3,363	$17,624	$982	$3,653,972	$34,602	$3,688,574

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The following table shows impaired loans and leases, segregated by class, and the corresponding reserve for impaired loan and lease losses.

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Reserve
March 31, 2015			
With no related reserve recorded:			
Commercial and agricultural	$6,096	$6,095	$—
Auto and light truck	—	—	—
Medium and heavy duty truck	—	—	—
Aircraft financing	4,919	4,919	—
Construction equipment financing	734	734	—
Commercial real estate	10,771	10,771	—
Residential real estate	—	—	—
Consumer	—	—	—
Total with no related reserve recorded	22,520	22,519	—
With a reserve recorded:			
Commercial and agricultural	598	598	13
Auto and light truck	—	—	—
Medium and heavy duty truck	—	—	—
Aircraft financing	2,460	2,460	501
Construction equipment financing	—	—	—
Commercial real estate	775	775	67
Residential real estate	371	374	154
Consumer	—	—	—
Total with a reserve recorded	4,204	4,207	735
Total impaired loans	$26,724	$26,726	$735
December 31, 2014			
With no related reserve recorded:			
Commercial and agricultural	$14,468	$14,467	$—
Auto and light truck	—	—	—
Medium and heavy duty truck	—	—	—
Aircraft financing	12,740	12,741	—
Construction equipment financing	746	746	—
Commercial real estate	11,707	11,707	—
Residential real estate	—	—	—
Consumer	—	—	—
Total with no related reserve recorded	39,661	39,661	—
With a reserve recorded:			
Commercial and agricultural	74	74	5
Auto and light truck	—	—	—
Medium and heavy duty truck	—	—	—
Aircraft financing	—	—	—
Construction equipment financing	—	—	—
Commercial real estate	798	798	80
Residential real estate	373	376	156
Consumer	—	—	—
Total with a reserve recorded	1,245	1,248	241

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

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

(Dollars in thousands)	Three Months Ended March 31, 2015 Average Recorded Investment	2015 Interest Income	2014 Average Recorded Investment	2014 Interest Income
Commercial and agricultural	$9,808	$10	$11,255	$16
Auto and light truck	—	—	1,627	—
Medium and heavy duty truck	—	—	—	—
Aircraft financing	9,144	6	6,976	9
Construction equipment financing	739	—	949	—
Commercial real estate	11,904	142	13,666	147
Residential real estate	373	4	378	4
Consumer	—	—	—	—
Total	$31,968	$162	$34,851	$176

The following table shows the number of loans and leases classified as troubled debt restructuring (TDR) during the three months ended March 31, 2015 and 2014, segregated by class, as well as the recorded investment as of March 31. The classification between nonperforming and performing is shown at the time of modification. Modification programs focus on extending maturity dates or modifying payment patterns with most TDRs experiencing a combination of concessions. The modifications did not result in the contractual forgiveness of principal or interest. There were no modifications during the three months ended March 31, 2015 and 2014 that resulted in an interest rate reduction below market rate. Consequently, the financial impact of the modifications was immaterial.

(Dollars in thousands)	Three Months Ended March 31, 2015 Number of Modifications	2015 Recorded Investment	2014 Number of Modifications	2014 Recorded Investment
Performing TDRs:				
Commercial and agricultural	—	$ —	—	$ —
Auto and light truck	—	—	—	—
Medium and heavy duty truck	—	—	—	—
Aircraft financing	—	—	1	596
Construction equipment financing	—	—	—	—
Commercial real estate	—	—	—	—
Residential real estate	—	—	—	—
Consumer	—	—	—	—
Total performing TDR modifications	—	$ —	1	$ 596
Nonperforming TDRs:				
Commercial and agricultural	—	$ —	—	$ —
Auto and light truck	—	—	—	—
Medium and heavy duty truck	—	—	—	—
Aircraft financing	—	—	—	—
Construction equipment financing	—	—	—	—
Commercial real estate	—	—	—	—
Residential real estate	—	—	—	—
Consumer	—	—	—	—
Total nonperforming TDR modifications	—	$ —	—	$ —

Total TDR modifications	—	$ —	1	$ 596

There were no TDRs which had payment defaults within the twelve months following modification during the three months ended March 31, 2015 and 2014. Default occurs when a loan or lease is 90 days or more past due under the modified terms or transferred to nonaccrual.

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

(Dollars in thousands)	March 31, 2015	December 31, 2014
Performing TDRs	$8,426	$9,118
Nonperforming TDRs	6,939	14,507
Total TDRs	$15,365	$23,625

Note 5. Reserve for Loan and Lease Losses

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

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

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The following table shows the changes in the reserve for loan and lease losses, segregated by class, for the three months ended March 31, 2015 and 2014.

(Dollars in thousands)	Commercial and agricultural	Auto and light truck	Medium and heavy duty truck	Aircraft financing	Construction equipment financing	Commercial real estate	Residential real estate	Consumer	Total
March 31, 2015									
Reserve for loan and lease losses									
Balance, beginning of period	$11,760	$10,326	$4,500	$32,234	$7,008	$13,270	$4,102	$1,868	$85,068
Charge-offs	943	22	—	49	—	—	40	147	1,201
Recoveries	478	60	3	44	122	97	2	68	874
Net charge-offs (recoveries)	465	(38)	(3)	5	(122)	(97)	38	79	327
Provision (recovery of provision)	325	429	(139)	(928)	610	(181)	51	190	357
Balance, end of period	$11,620	$10,793	$4,364	$31,301	$7,740	$13,186	$4,115	$1,979	$85,098
Ending balance, individually evaluated for impairment	$13	$—	$—	$501	$—	$67	$154	$—	$735
Ending balance, collectively evaluated for impairment	11,607	10,793	4,364	30,800	7,740	13,119	3,961	1,979	84,363
Total reserve for loan and lease losses	$11,620	$10,793	$4,364	$31,301	$7,740	$13,186	$4,115	$1,979	$85,098
Recorded investment in loans									
Ending balance, individually evaluated for impairment	$6,694	$—	$—	$7,379	$734	$11,546	$371	$—	$26,724
Ending balance, collectively evaluated for impairment	705,599	402,389	240,187	689,564	438,796	604,009	443,004	150,860	3,674,408
Total recorded investment in loans	$712,293	$402,389	$240,187	$696,943	$439,530	$615,555	$443,375	$150,860	$3,701,132
March 31, 2014									
Reserve for loan and lease losses									
Balance, beginning of period	$11,515	$9,657	$4,212	$34,037	$5,972	$12,406	$4,093	$1,613	$83,505
Charge-offs	15	11	—	—	2	1	16	258	303
Recoveries	379	234	37	57	166	39	5	87	1,004
Net charge-offs (recoveries)	(364)	(223)	(37)	(57)	(164)	(38)	11	171	(701
	(60)	(224)	162	415	178	165	(20)	188	804

Provision (recovery of provision)									
Balance, end of period	$11,819	$9,656	$4,411	$34,509	$6,314	$12,609	$4,062	$1,630	$85,010
Ending balance, individually evaluated for impairment	$—	$—	$—	$57	$9	$—	$160	$—	$226
Ending balance, collectively evaluated for impairment	11,819	9,656	4,411	34,452	6,305	12,609	3,902	1,630	84,784
Total reserve for loan and lease losses	$11,819	$9,656	$4,411	$34,509	$6,314	$12,609	$4,062	$1,630	$85,010
Recorded investment in loans									
Ending balance, individually evaluated for impairment	$11,146	$266	$—	$4,147	$1,129	$12,789	$377	$—	$29,854
Ending balance, collectively evaluated for impairment	687,100	388,399	237,906	726,656	351,667	575,840	455,301	124,845	3,547,714
Total recorded investment in loans	$698,246	$388,665	$237,906	$730,803	$352,796	$588,629	$455,678	$124,845	$3,577,568

Note 6. Mortgage Servicing Rights

The Company recognizes the rights to service residential mortgage loans for others as separate assets, whether the servicing rights are acquired through a separate purchase or through the sale of originated loans with servicing rights retained. The Company allocates a portion of the total proceeds of a mortgage loan to servicing rights based on the relative fair value. The unpaid principal balance of residential mortgage loans serviced for third parties was $813.40 million and $825.17 million at March 31, 2015 and December 31, 2014, respectively.

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

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

	Three Months Ended March 31,	
(Dollars in thousands)	2015	2014
Mortgage servicing rights:		
Balance at beginning of period	$4,733	$4,844
Additions	250	201
Amortization	(393)	(286)
Sales	—	—
Carrying value before valuation allowance at end of period	4,590	4,759
Valuation allowance:		
Balance at beginning of period	—	—
Impairment (charges) recoveries	—	—
Balance at end of period	$—	$—
Net carrying value of mortgage servicing rights at end of period	$4,590	$4,759
Fair value of mortgage servicing rights at end of period	$6,654	$7,868

At March 31, 2015 and 2014, the fair value of MSRs exceeded the carrying value reported in the Statements of Financial Condition by $2.06 million and $3.11 million, respectively. This difference represents increases in the fair value of certain MSRs that could not be recorded above cost basis.

Mortgage loan contractual servicing fees, including late fees and ancillary income, were $0.72 million and $0.79 million for the three months ended March 31, 2015 and 2014, respectively. Mortgage loan contractual servicing fees are included in Mortgage Banking Income on the Statements of Income.

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

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

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

The Bank issues standby letters of credit which are conditional commitments that guarantee the performance of a client to a third party. The credit risk involved in and collateral obtained when issuing standby letters of credit is essentially the same as that involved in extending loan commitments to clients. Standby letters of credit totaled $27.90 million and $26.94 million at March 31, 2015 and December 31, 2014, respectively. Standby letters of credit generally have terms ranging from six months to one year.

Note 8. Derivative Financial Instruments

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

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

(Dollars in thousands)	Notional or contractual amount	Asset derivatives Statement of Financial Condition classification	Fair value	Liability derivatives Statement of Financial Condition classification	Fair value
March 31, 2015					
Interest rate swap contracts	$455,148	Other assets	$10,146	Other liabilities	$10,343
Loan commitments	17,648	Mortgages held for sale	141	N/A	—
Forward contracts - mortgage loan	34,050	N/A	—	Mortgages held for sale	168
Total	$506,846		$10,287		$10,511
December 31, 2014					
Interest rate swap contracts	$459,508	Other assets	$9,125	Other liabilities	$9,302
Loan commitments	11,109	Mortgages held for sale	2	N/A	—
Forward contracts - mortgage loan	19,800	N/A	—	Mortgages held for sale	142
Total	$490,417		$9,127		$9,444

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

(Dollars in thousands)	Statement of Income classification	Gain (loss) Three Months Ended March 31, 2015	2014
Interest rate swap contracts	Other expense	$(19)	$6
Interest rate swap contracts	Other income	76	92
Loan commitments	Mortgage banking income	139	110
Forward contracts - mortgage loan	Mortgage banking income	(26)	(120)
Forward contracts - foreign exchange	Other income	—	(1)
Total		$170	$87

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

Gross Amounts Not Offset in the Statement of Financial Condition

(Dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Assets Presented in the Statement of Financial Condition	Financial Instruments	Cash Collateral Received	Net Amount
March 31, 2015						
Interest rate swaps	$ 10,477	$ 331	$ 10,146	$ —	$ —	$ 10,146
December 31, 2014						
Interest rate swaps	$ 9,492	$ 367	$ 9,125	$ —	$ —	$ 9,125

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

(Dollars in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Liabilities Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		
				Financial Instruments	Cash Collateral Pledged	Net Amount
March 31, 2015						
Interest rate swaps	$ 10,674	$ 331	$ 10,343	$ —	$ 9,792	$ 551
Repurchase agreements	123,075	—	123,075	123,075	—	—
Total	$ 133,749	$ 331	$ 133,418	$ 123,075	$ 9,792	$ 551
December 31, 2014						
Interest rate swaps	$ 9,669	$ 367	$ 9,302	$ —	$ 9,018	$ 284
Repurchase agreements	128,343	—	128,343	128,343	—	—
Total	$ 138,012	$ 367	$ 137,645	$ 128,343	$ 9,018	$ 284

If a default in performance of any obligation of a repurchase agreement occurs, each party will set-off property held in respect of transactions against obligations owing in respect of any other transactions.

Note 9. Earnings Per Share

Earnings per common share is computed using the two-class method. Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the applicable period, excluding outstanding participating securities. Participating securities include non-vested restricted stock awards. Non-vested restricted stock awards are considered participating securities to the extent the holders of these securities receive non-forfeitable dividends at the same rate as holders of common stock. Diluted earnings per common share is computed using the weighted-average number of shares determined for the basic earnings per common share computation plus the dilutive effect of stock compensation using the treasury stock method. Stock options, where the exercise price was greater than the average market price of the common shares, were excluded from the computation of diluted earnings per common share because the result would have been antidilutive. There were no stock options outstanding as of March 31, 2015 and 2014.

The following table presents a reconciliation of the number of shares used in the calculation of basic and diluted earnings per common share.

	Three Months Ended March 31,	
(Dollars in thousands - except per share amounts)	2015	2014
Distributed earnings allocated to common stock	$4,296	$4,135
Undistributed earnings allocated to common stock	9,063	9,311
Net earnings allocated to common stock	13,359	13,446
Net earnings allocated to participating securities	152	186
Net income allocated to common stock and participating securities	$ 13,511	$ 13,632
Weighted average shares outstanding for basic earnings per common share	23,871,157	24,317,446
Dilutive effect of stock compensation	—	—
Weighted average shares outstanding for diluted earnings per common share	23,871,157	24,317,446
Basic earnings per common share	$ 0.56	$ 0.55

Diluted earnings per common share	$0.56	$0.55

Note 10. Stock Based Compensation

As of March 31, 2015, the Company had four active stock-based employee compensation plans, which are more fully described in Note 16 of the Consolidated Financial Statements in 1st Source's Annual Report on Form 10-K for the year ended December 31, 2014. These plans include three executive stock award plans, the Executive Incentive Plan, the Restricted Stock Award Plan, the 1998 Performance Compensation Plan; and the Employee Stock Purchase Plan. The 2011 Stock Option Plan was approved by the shareholders on April 21, 2011 but the Company had not made any grants through March 31, 2015.

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Stock-based compensation expense for all stock-based compensation awards granted is based on the grant-date fair value. For all awards except stock option awards, the grant date fair value is either the fair market value per share or book value per share (corresponding to the type of stock awarded) as of the grant date. For stock option awards, the grant date fair value is estimated using the Black-Scholes option pricing model. For all awards the Company recognizes these compensation costs only for those shares expected to vest on a straight-line basis over the requisite service period of the award, for which the Company uses the related vesting term. The Company estimates forfeiture rates based on historical employee option exercise and employee termination experience. The Company has identified separate groups of award recipients that exhibit similar option exercise behavior and employee termination experience and have considered them as separate groups in the valuation models and expense estimates.

The stock-based compensation expense recognized in the Statements of Income for the three months ended March 31, 2015 and 2014 was based on awards ultimately expected to vest, and accordingly has been adjusted by the amount of estimated forfeitures. GAAP requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based partially on historical experience.

Total fair value of options vested and expensed was zero for the three months ended March 31, 2015 and 2014. As of March 31, 2015 and 2014 there were no outstanding stock options. There were no stock options exercised during the three months ended March 31, 2015 and 2014. All shares issued in connection with stock option exercises are issued from available treasury stock.

As of March 31, 2015, there was $7.08 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 3.40 years.

Note 11. Accumulated Other Comprehensive Income

The following table presents reclassifications out of accumulated other comprehensive income related to unrealized gains and losses on available-for-sale securities.

	Three Months Ended March 31,		Affected Line Item in the Statements of Income
(Dollars in thousands)	2015	2014	
Realized gains included in net income	$—	$963	Gains on investment securities available-for-sale
	—	963	Income before income taxes
Tax effect	—	(361)	Income tax expense
Net of tax	$—	$602	Net income

Note 12. Income Taxes

The total amount of unrecognized tax benefits that would affect the effective tax rate if recognized was $0.06 million at March 31, 2015 and there were no unrecognized tax benefits that would affect the effective tax rate at December 31, 2014. Interest and penalties were recognized through the income tax provision. For the three months ended March 31, 2015, the Company recognized no interest or penalties. For the three months ended March 31, 2014, the Company recognized approximately $0.02 million in interest, net of tax effect, and penalties. There were no accrued interest and penalties at March 31, 2015 and December 31, 2014, respectively.

Tax years that remain open and subject to audit include the federal 2011-2014 years and the Indiana 2013-2014 years. The Company does not anticipate a significant change in the amount of uncertain tax positions within the next 12 months.

Note 13. Fair Value Measurements

The Company records certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are also utilized to determine the initial value of certain assets and liabilities, to perform impairment assessments, and for disclosure purposes. The Company uses quoted market prices and observable inputs to the maximum extent possible when measuring fair value. In the absence of quoted market prices, various valuation techniques are utilized to measure fair value. When possible, observable market data for identical or similar financial instruments is used in the valuation. When market data is not available, fair value is determined using valuation models that incorporate management's estimates of the assumptions a market participant would use in pricing the asset or liability.

Fair value measurements are classified within one of three levels based on the observability of the inputs used to determine fair value, as follows:

•Level 1 — The valuation is based on quoted prices in active markets for identical instruments.

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- Level 2 — The valuation is based on observable inputs such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 — The valuation is based on unobservable inputs that are supported by minimal or no market activity and that are significant to the fair value of the instrument. Level 3 valuations are typically performed using pricing models, discounted cash flow methodologies, or similar techniques that incorporate management's own estimates of assumptions that market participants would use in pricing the instrument, or valuations that require significant management judgment or estimation.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The Company elected fair value accounting for mortgages held for sale. The Company believes the election for mortgages held for sale (which are economically hedged with free standing derivatives) will reduce certain timing differences and better match changes in the value of these assets with changes in the value of derivatives used as economic hedges for these assets. At March 31, 2015 and December 31, 2014, all mortgages held for sale were carried at fair value.

The following table shows the differences between the fair value carrying amount of mortgages held for sale measured at fair value and the aggregate unpaid principal amount the Company is contractually entitled to receive at maturity.

(Dollars in thousands)	Fair value carrying amount	Aggregate unpaid principal	Excess of fair value carrying amount over (under) unpaid principal	
March 31, 2015				
Mortgages held for sale reported at fair value	$ 22,820	$ 22,520	$ 300	(1)
December 31, 2014				
Mortgages held for sale reported at fair value	$ 13,604	$ 13,526	$ 78	(1)

(1) The excess of fair value carrying amount over (under) unpaid principal is included in mortgage banking income and includes changes in fair value at and subsequent to funding and gains and losses on the related loan commitment prior to funding.

Financial Instruments on Recurring Basis:

The following is a description of the valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Investment securities available for sale are valued primarily by a third party pricing agent. Prices supplied by the independent pricing agent, as well as their pricing methodologies and assumptions, are reviewed by the Company for reasonableness and to ensure such prices are aligned with market levels. In general, the Company's investment securities do not possess a complex structure that could introduce greater valuation risk. The portfolio mainly consists of traditional investments including U.S. Treasury and Federal agencies securities, federal agency mortgage pass-through securities, and general obligation and revenue municipal bonds. Pricing for such instruments is fairly generic and is easily obtained. On a quarterly basis, prices supplied by the pricing agent are validated by comparison to prices obtained from other third party sources for a material portion of the portfolio.

The valuation policy and procedures for Level 3 fair value measurements of available for sale debt securities are decided through collaboration between management of the Corporate Accounting and Funds Management departments. The changes in fair value measurement for Level 3 securities are analyzed on a periodic basis under a collaborative framework with the aforementioned departments. The methodology and variables used for input are derived from the combination of observable and unobservable inputs. The unobservable inputs are determined through internal assumptions that may vary from period to period due to external factors, such as market movement and credit rating adjustments.

Both the market and income valuation approaches are implemented using the following types of inputs:

- U.S. treasuries are priced using the market approach and utilizing live data feeds from active market exchanges for identical securities.
- Government-sponsored agency debt securities and corporate bonds are primarily priced using available market information through processes such as benchmark curves, market valuations of like securities, sector groupings and matrix pricing.

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- Other government-sponsored agency securities, mortgage-backed securities and some of the actively traded REMICs and CMOs, are primarily priced using available market information including benchmark yields, prepayment speeds, spreads and volatility of similar securities.
- Other inactive government-sponsored agency securities are primarily priced using consensus pricing and dealer quotes.
- State and political subdivisions are largely grouped by characteristics, i.e., geographical data and source of revenue in trade dissemination systems. Since some securities are not traded daily and due to other grouping limitations, active market quotes are often obtained using benchmarking for like securities. Local direct placement municipal securities, with very little market activity, are priced using an appropriate market yield curve, which includes a credit spread assumption.
- Marketable equity (common) securities are primarily priced using the market approach and utilizing live data feeds from active market exchanges for identical securities.

Trading account securities are priced using the market approach and utilizing live data feeds from active market exchanges for identical securities.

Mortgages held for sale and the related loan commitments and forward contracts (hedges) are valued using a market value approach and utilizing an appropriate current market yield and a loan commitment closing rate based on historical analysis.

Interest rate swap positions, both assets and liabilities, are valued by a third party pricing agent using an income approach and utilizing models that use as their basis readily observable market parameters. This valuation process considers various factors including interest rate yield curves, time value and volatility factors. Validation of third party agent valuations is accomplished by comparing those values to the Company’s swap counterparty valuations. Management believes an adjustment is required to “mid-market” valuations for derivatives tied to its performing loan portfolio to recognize the imprecision and related exposure inherent in the process of estimating expected credit losses as well as velocity of deterioration evident with systemic risks embedded in these portfolios.

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The following table shows the balance of assets and liabilities measured at fair value on a recurring basis.

(Dollars in thousands)	Level 1	Level 2	Level 3	Total
March 31, 2015				
Assets:				
Investment securities available-for-sale:				
U.S. Treasury and Federal agencies securities	$19,978	$370,378	$—	$390,356
U.S. States and political subdivisions securities	—	116,431	5,632	122,063
Mortgage-backed securities — Federal agencies	—	244,608	—	244,608
Corporate debt securities	—	32,026	—	32,026
Foreign government and other securities	—	—	808	808
Total debt securities	19,978	763,443	6,440	789,861
Marketable equity securities	6,743	—	—	6,743
Total investment securities available-for-sale	26,721	763,443	6,440	796,604
Trading account securities	208	—	—	208
Mortgages held for sale	—	22,820	—	22,820
Accrued income and other assets (interest rate swap agreements)	—	10,146	—	10,146
Total	$26,929	$796,409	$6,440	$829,778
Liabilities:				
Accrued expenses and other liabilities (interest rate swap agreements)	$—	$10,343	$—	$10,343
Total	$—	$10,343	$—	$10,343
December 31, 2014				
Assets:				
Investment securities available-for-sale:				
U.S. Treasury and Federal agencies securities	$19,808	$353,695	$—	$373,503
U.S. States and political subdivisions securities	—	118,222	6,466	124,688
Mortgage-backed securities — Federal agencies	—	253,008	—	253,008
Corporate debt securities	—	31,932	—	31,932
Foreign government and other securities	—	—	811	811
Total debt securities	19,808	756,857	7,277	783,942
Marketable equity securities	7,176	—	—	7,176
Total investment securities available-for-sale	26,984	756,857	7,277	791,118
Trading account securities	205	—	—	205
Mortgages held for sale	—	13,604	—	13,604
Accrued income and other assets (interest rate swap agreements)	—	9,125	—	9,125
Total	$27,189	$779,586	$7,277	$814,052
Liabilities:				
Accrued expenses and other liabilities (interest rate swap agreements)	$—	$9,302	$—	$9,302
Total	$—	$9,302	$—	$9,302

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The following table shows changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the quarter ended March 31, 2015 and 2014.

(Dollars in thousands)	U.S. States and political subdivisions securities	Foreign government and other securities	Investment securities available-for-sale
Beginning balance January 1, 2015	$ 6,466	$ 811	$ 7,277
Total gains or losses (realized/unrealized):			
Included in earnings	—	—	—
Included in other comprehensive income	(7)	(3)	(10)
Purchases	—	—	—
Issuances	—	—	—
Sales	—	—	—
Settlements	—	—	—
Maturities	(827)	—	(827)
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Ending balance March 31, 2015	$ 5,632	$ 808	$ 6,440
Beginning balance January 1, 2014	$ 5,498	$—	$ 5,498
Total gains or losses (realized/unrealized):			
Included in earnings	—	—	—
Included in other comprehensive income	16	—	16
Purchases	—	—	—
Issuances	—	—	—
Sales	—	—	—
Settlements	—	—	—
Maturities	(805)	—	(805)
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Ending balance March 31, 2014	$ 4,709	$—	$ 4,709

There were no gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets and liabilities still held at March 31, 2015 or 2014. No transfers between levels occurred during the three months ended March 31, 2015 or 2014.
The following table shows the valuation methodology and unobservable inputs for Level 3 assets and liabilities measured at fair value on a recurring basis.

(Dollars in thousands)	Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs
March 31, 2015				
Investment securities available-for sale				
Direct placement municipal securities	$5,632	Discounted cash flows	Credit spread assumption	0.80% - 2.03%
Foreign government	$808	Discounted cash flows	Market yield assumption	0.16% - 1.43%
December 31, 2014				

Investment securities available-for sale				
Direct placement municipal securities	$6,466	Discounted cash flows	Credit spread assumption	0.99% - 2.08%
Foreign government	$811	Discounted cash flows	Market yield assumption	0.25% - 1.31%

The sensitivity to changes in the unobservable inputs and their impact on the fair value measurement can be significant. The significant unobservable input for direct placement municipal securities are the credit spread assumptions used to determine the fair value measure. An increase (decrease) in the estimated spread assumption of the market will decrease (increase) the fair value measure of the securities. The significant unobservable input for foreign government securities are the market yield assumptions. The market yield assumption is negatively correlated to the fair value measure. An increase (decrease) in the determined market yield assumption will decrease (increase) the fair value measurement.

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Financial Instruments on Non-recurring Basis:
The Company may be required, from time to time, to measure certain other financial assets at fair value on a non-recurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower of cost or market accounting or impairment charges of individual assets.
The Credit Policy Committee (CPC), a management committee, is responsible for overseeing the valuation processes and procedures for Level 3 measurements of impaired loans, other real estate and repossessions. The CPC reviews these assets on a quarterly basis to determine the accuracy of the observable inputs, generally third party appraisals, auction values, values derived from trade publications and data submitted by the borrower, and the appropriateness of the unobservable inputs, generally discounts due to current market conditions and collection issues. The CPC establishes discounts based on asset type and valuation source; deviations from the standard are documented. The discounts are reviewed periodically, annually at a minimum, to determine they remain appropriate. Consideration is given to current trends in market values for the asset categories and gains and losses on sales of similar assets. The Loan and Funds Management Committee of the Board of Directors is responsible for overseeing the CPC.
Discounts vary depending on the nature of the assets and the source of value. Aircraft are generally valued using quarterly trade publications adjusted for engine time, condition, maintenance programs, discounted by 10%. Likewise, autos are valued using current auction values, discounted by 10%; medium and heavy duty trucks are valued using trade publications and auction values, discounted by 15%. Construction equipment is generally valued using trade publications and auction values, discounted by 20%. Real estate is valued based on appraisals or evaluations, discounted by 20% at a minimum with higher discounts for property in poor condition or property with characteristics which may make it more difficult to market. Commercial loans subject to borrowing base certificates are generally discounted by 20% for receivables and 40% - 75% for inventory with higher discounts when monthly borrowing base certificates are not required or received.
Impaired loans and related write-downs are based on the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are reviewed quarterly and estimated using customized discounting criteria, appraisals and dealer and trade magazine quotes which are used in a market valuation approach. In accordance with fair value measurements, only impaired loans for which a reserve for loan loss has been established based on the fair value of collateral require classification in the fair value hierarchy. As a result, only a portion of the Company’s impaired loans are classified in the fair value hierarchy.
Partnership investments and the adjustments to fair value primarily result from application of lower of cost or fair value accounting. The partnership investments are priced using financial statements provided by the partnerships. Quantitative unobservable inputs are not reasonably available for reporting purposes.
The Company has established MSRs valuation policies and procedures based on industry standards and to ensure valuation methodologies are consistent and verifiable. MSRs and related adjustments to fair value result from application of lower of cost or fair value accounting. For purposes of impairment, MSRs are stratified based on the predominant risk characteristics of the underlying servicing, principally by loan type. The fair value of each tranche of the servicing portfolio is estimated by calculating the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, servicing costs, and other economic factors. Prepayment rates and discount rates are derived through a third party pricing agent. Changes in the most significant inputs, including prepayment rates and discount rates, are compared to the changes in the fair value measurements and appropriate resolution is made. A fair value analysis is also obtained from an independent third party agent and compared to the internal valuation for reasonableness. MSRs do not trade in an active, open market with readily observable prices and though sales of MSRs do occur, precise terms and conditions typically are not readily available and the characteristics of the Company’s servicing portfolio may differ from those of any servicing portfolios that do trade.
Other real estate is based on the lower of cost or fair value of the underlying collateral less expected selling costs. Collateral values are estimated primarily using appraisals and reflect a market value approach. Fair values are reviewed quarterly and new appraisals are obtained annually. Repossessions are similarly valued.
For assets measured at fair value on a nonrecurring basis the following represents impairment charges (recoveries) recognized on these assets during the quarter ended March 31, 2015: impaired loans $0.00 million; partnership

investments - $(0.03) million; mortgage servicing rights $0.00 million; repossessions $0.62 million, and other real estate - $0.00 million.

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The following table shows the carrying value of assets measured at fair value on a non-recurring basis.

(Dollars in thousands)	Level 1	Level 2	Level 3	Total
March 31, 2015				
Impaired loans - collateral based	$—	$—	$3,471	$3,471
Accrued income and other assets (partnership investments)	—	—	1,010	1,010
Accrued income and other assets (mortgage servicing rights)	—	—	4,590	4,590
Accrued income and other assets (repossessions)	—	—	4,607	4,607
Accrued income and other assets (other real estate)	—	—	1,518	1,518
Total	$—	$—	$15,196	$15,196
December 31, 2014				
Impaired loans - collateral based	$—	$—	$1,007	$1,007
Accrued income and other assets (partnership investments)	—	—	1,343	1,343
Accrued income and other assets (mortgage servicing rights)	—	—	4,733	4,733
Accrued income and other assets (repossessions)	—	—	5,156	5,156
Accrued income and other assets (other real estate)	—	—	1,735	1,735
Total	$—	$—	$13,974	$13,974

The following table below shows the valuation methodology and unobservable inputs for Level 3 assets and liabilities measured at fair value on a non-recurring basis.

(Dollars in thousands)	Carrying Value	Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs
March 31, 2015					
Impaired loans	$ 3,471	$ 3,471	Collateral based measurements including appraisals, trade publications, and auction values	Discount for lack of marketability and current conditions	10% - 25%
Mortgage servicing rights	4,590	6,654	Discounted cash flows	Constant prepayment rate (CPR)	11.3% -20.2%
				Discount rate	9.5% - 13.0%
Repossessions	4,607	4,760	Appraisals, trade publications and auction values	Discount for lack of marketability	0% - 3%
Other real estate	1,518	1,695	Appraisals	Discount for lack of marketability	4% - 38%
December 31, 2014					
Impaired loans	$ 1,007	$ 1,007	Collateral based measurements including appraisals, trade publications, and auction values	Discount for lack of marketability and current conditions	20% - 25%
Mortgage servicing rights	4,733	6,979	Discounted cash flows	Constant prepayment rate (CPR)	10.2% - 16.3%
				Discount rate	9.5% - 13.0%
Repossessions	5,156	5,307	Appraisals, trade publications and auction values	Discount for lack of marketability	0% - 3%

Other real estate	1,735	1,953	Appraisals	Discount for lack of marketability	5% - 38%

GAAP requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring or non-recurring basis.

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The following table shows the fair values of the Company's financial instruments.

(Dollars in thousands)	Carrying or Contract Value	Fair Value	Level 1	Level 2	Level 3
March 31, 2015					
Assets:					
Cash and due from banks	$ 58,196	$58,196	$58,196	$—	$—
Federal funds sold and interest bearing deposits with other banks	11,068	11,068	11,068	—	—
Investment securities, available-for-sale	796,604	796,604	26,721	763,443	6,440
Other investments and trading account securities	20,769	20,769	20,769	—	—
Mortgages held for sale	22,820	22,820	—	22,820	—
Loans and leases, net of reserve for loan and lease losses	3,616,034	3,640,449	—	—	3,640,449
Cash surrender value of life insurance policies	60,860	60,860	60,860	—	—
Mortgage servicing rights	4,590	6,654	—	—	6,654
Interest rate swaps	10,146	10,146	—	10,146	—
Liabilities:					
Deposits	$ 3,870,460	$3,873,395	$2,862,708	$1,010,687	$—
Short-term borrowings	200,146	200,146	125,950	74,196	—
Long-term debt and mandatorily redeemable securities	57,515	57,587	—	57,587	—
Subordinated notes	58,764	62,768	—	62,768	—
Interest rate swaps	10,343	10,343	—	10,343	—
Off-balance-sheet instruments *	—	294	—	294	—
December 31, 2014					
Assets:					
Cash and due from banks	$ 64,834	$64,834	$64,834	$—	$—
Federal funds sold and interest bearing deposits with other banks	1,356	1,356	1,356	—	—
Investment securities, available-for-sale	791,118	791,118	26,984	756,857	7,277
Other investments and trading account securities	21,006	21,006	21,006	—	—
Mortgages held for sale	13,604	13,604	—	13,604	—
Loans and leases, net of reserve for loan and lease losses	3,603,506	3,626,682	—	—	3,626,682
Cash surrender value of life insurance policies	60,371	60,371	60,371	—	—
Mortgage servicing rights	4,733	6,979	—	—	6,979
Interest rate swaps	9,125	9,125	—	9,125	—
Liabilities:					
Deposits	$ 3,802,860	$3,803,958	$2,824,935	$979,023	$—
Short-term borrowings	245,822	245,822	123,337	122,485	—
Long-term debt and mandatorily redeemable securities	56,232	56,044	—	56,044	—
Subordinated notes	58,764	59,427	—	59,427	—
Interest rate swaps	9,302	9,302	—	9,302	—
Off-balance-sheet instruments *	—	305	—	305	—

* Represents estimated cash outflows required to currently settle the obligations at current market rates.

The methodologies for estimating fair value of financial assets and financial liabilities that are measured at fair value on a recurring or non-recurring basis are discussed above. The estimated fair value approximates carrying value for cash and due from banks, federal funds sold and interest bearing deposits with other banks, other investments, and cash surrender value of life insurance policies. The methodologies for other financial assets and financial liabilities are discussed below:

Loans and Leases — For variable rate loans and leases that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values of other loans and leases are estimated using discounted cash flow analyses which use interest rates currently being offered for loans and leases with similar terms to borrowers of similar credit quality.

Deposits — The fair values for all deposits other than time deposits are equal to the amounts payable on demand (the carrying value). Fair values of variable rate time deposits are equal to their carrying values. Fair values for fixed rate time deposits are estimated using discounted cash flow analyses using interest rates currently being offered for deposits with similar remaining maturities.

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Short-Term Borrowings — The carrying values of Federal funds purchased, securities sold under repurchase agreements, and other short-term borrowings, including the liability related to mortgage loans available for repurchase under GNMA optional repurchase programs, approximate their fair values.

Long-Term Debt and Mandatorily Redeemable Securities — The fair values of long-term debt are estimated using discounted cash flow analyses, based on the current estimated incremental borrowing rates for similar types of borrowing arrangements. The carrying values of mandatorily redeemable securities are based on the current estimated cost of redeeming these securities which approximate their fair values.

Subordinated Notes — Fair values are estimated based on calculated market prices of comparable securities.

Off-Balance-Sheet Instruments — Contract and fair values for certain off-balance-sheet financial instruments (guarantees) are estimated based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

Limitations — Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instruments. Because no market exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other such factors.

These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. These estimates are subjective in nature and require considerable judgment to interpret market data. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange, nor are they intended to represent the fair value of the Company as a whole. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. The fair value estimates presented herein are based on pertinent information available to management as of the respective balance sheet date. Although the Company is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein.

Other significant assets, such as premises and equipment, other assets, and liabilities not defined as financial instruments, are not included in the above disclosures. Also, the fair value estimates for deposits do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

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ITEM 2.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis is presented to provide information concerning 1st Source Corporation and its subsidiaries' (collectively referred to as "the Company", "we", and "our") financial condition as of March 31, 2015, as compared to December 31, 2014, and the results of operations for the three months ended March 31, 2015 and 2014. This discussion and analysis should be read in conjunction with our consolidated financial statements and the financial and statistical data appearing elsewhere in this report and our 2014 Annual Report.

Except for historical information contained herein, the matters discussed in this document express "forward-looking statements." Generally, the words "believe," "contemplate," "seek," "plan," "possible," "assume," "expect," "intend," "targeted "remain," "estimate," "anticipate," "project," "will," "should," "indicate," "would," "may" and other similar expressions are in identify forward-looking statements but are not the exclusive means of identifying such statements. Those statements, including statements, projections, estimates or assumptions concerning future events or performance, and other statements that are other than statements of historical fact, are subject to material risks and uncertainties. We caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made. We may make other written or oral forward-looking statements from time to time. Readers are advised that various important factors could cause our actual results or circumstances for future periods to differ materially from those anticipated or projected in such forward-looking statements. Such factors include, but are not limited to, changes in law, regulations or GAAP; our competitive position within the markets we serve; increasing consolidation within the banking industry; unforeseen changes in interest rates; unforeseen changes in loan prepayment assumptions; unforeseen downturns in or major events affecting the local, regional or national economies or the industries in which we have credit concentrations; and other matters discussed in our filings with the SEC, including our Annual Report on Form 10-K for 2014, which filings are available from the SEC. We undertake no obligation to publicly update or revise any forward-looking statements.

FINANCIAL CONDITION

Our total assets at March 31, 2015 were $4.86 billion, an increase of $32.43 million from December 31, 2014. Total loans and leases were $3.70 billion, an increase of $12.56 million from December 31, 2014. Total investment securities, available for sale were $796.60 million which represented an increase of $5.49 million and total deposits were $3.87 billion, an increase of $67.60 million or 1.78% over the comparable figures at the end of 2014. Short-term borrowings were $200.15 million, a decrease of $45.68 million or 18.58% from December 31, 2014.

Nonperforming assets at March 31, 2015 were $27.71 million, a decrease of $14.77 million or 34.77% from the $42.48 million reported at December 31, 2014. At March 31, 2015 and December 31, 2014, nonperforming assets were 0.73% and 1.13%, respectively of net loans and leases.

The following table shows accrued income and other assets.

(Dollars in thousands)	March 31, 2015	December 31, 2014
Accrued income and other assets:		
Bank owned life insurance cash surrender value	$60,860	$60,371
Accrued interest receivable	13,364	13,140
Mortgage servicing rights	4,590	4,733
Other real estate	892	1,109
Former bank premises held for sale	626	626
Repossessions	4,607	5,156
All other assets	34,455	39,557
Total accrued income and other assets	$119,394	$124,692

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CAPITAL

As of March 31, 2015, total shareholders' equity was $624.51 million, up $10.03 million or 1.63% from the $614.47 million at December 31, 2014. In addition to net income of $13.51 million, other significant changes in shareholders' equity during the first three months of 2015 included $2.96 million of common stock acquired for treasury and $4.33 million of dividends paid. The accumulated other comprehensive income/(loss) component of shareholders' equity totaled $11.25 million at March 31, 2015, compared to $9.41 million at December 31, 2014. The increase in accumulated other comprehensive income/(loss) during 2015 was the result of changes in unrealized gain/(loss) on securities in the available-for-sale portfolio. Our equity-to-assets ratio was 12.84% as of March 31, 2015, compared to 12.72% at December 31, 2014. Book value per common share rose to $26.18 at March 31, 2015, from $25.75 at December 31, 2014.

We declared and paid dividends per common share of $0.18 during the first quarter of 2015. The trailing four quarters dividend payout ratio, representing dividends per common share divided by diluted earnings per common share, was 30.13%. The dividend payout is continually reviewed by management and the Board of Directors subject to the Company's capital and dividend policy.

The banking regulators have established guidelines for leverage capital requirements, expressed in terms of Tier 1 or core capital as a percentage of average assets, to measure the soundness of a financial institution. In addition, banking regulators have established risk-based capital guidelines for U.S. banking organizations. The actual capital amounts and ratios of 1st Source Corporation and 1st Source Bank as of March 31, 2015, are presented in the table below.

	Actual			Minimum Capital Adequacy			To Be Well Capitalized Under Prompt Corrective Action Provisions		
(Dollars in thousands)	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Total Capital (to Risk-Weighted Assets):									
1st Source Corporation	$645,368	15.80	%	$326,851	8.00	%	$408,564	10.00	%
1st Source Bank	611,490	15.03		325,499	8.00		406,874	10.00	
Tier 1 Capital (to Risk-Weighted Assets):									
1st Source Corporation	591,666	14.48		245,139	6.00		326,851	8.00	
1st Source Bank	560,065	13.77		244,124	6.00		325,499	8.00	
Common Equity Tier 1 Capital (to Risk-Weighted Assets):									
1st Source Corporation	534,666	13.09		183,854	4.50		265,567	6.50	
1st Source Bank	560,065	13.77		183,093	4.50		264,468	6.50	
Tier 1 Capital (to Average Assets):									
1st Source Corporation	591,666	12.50		189,288	4.00		236,610	5.00	
1st Source Bank	560,065	11.86		188,970	4.00		236,213	5.00	

LIQUIDITY AND INTEREST RATE SENSITIVITY

Effective liquidity management ensures that the cash flow requirements of depositors and borrowers, as well as our operating cash needs are met. Funds are available from a number of sources, including the securities portfolio, the core deposit base, Federal Home Loan Bank (FHLB) borrowings, Federal Reserve Bank (FRB) borrowings, and the capability to package loans for sale.

We have borrowing sources available to supplement deposits and meet our funding needs. 1st Source Bank has established relationships with several banks to provide short term borrowings in the form of federal funds purchased. At March 31, 2015, we had no outstandings and could borrow approximately $265.00 million for a short time from these banks on a collective basis. As of March 31, 2015, we had $98.43 million outstanding in FHLB advances and could borrow an additional $109.48 million. We also had $360.39 million available to borrow from the FRB with no amounts outstanding as of March 31, 2015.

Our loan to asset ratio was 76.12% at March 31, 2015 compared to 76.37% at December 31, 2014 and 74.95% at March 31, 2014. Cash and cash equivalents totaled $69.26 million at March 31, 2015 compared to $66.19 million at December 31, 2014 and $93.83 million at March 31, 2014. At March 31, 2015, the Statement of Financial Condition was rate sensitive by $572.47 million more assets than liabilities scheduled to reprice within one year, or approximately 1.32%. Management believes that the present funding sources provide adequate liquidity to meet our cash flow needs.

Under Indiana law governing the collateralization of public fund deposits, the Indiana Board of Depositories determines which financial institutions are required to pledge collateral based on the strength of their financial ratings. We have been informed that no collateral is required for our public fund deposits. However, the Board of Depositories could alter this requirement in the future and adversely impact our liquidity. Our potential liquidity exposure if we must pledge collateral is approximately $506 million.

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RESULTS OF OPERATIONS

Net income for the three month period ended March 31, 2015 was $13.51 million, compared to $13.63 million for the same period in 2014. Diluted net income per common share was $0.56 for the three month period ended March 31, 2015, compared to $0.55 for the same period in 2014. Return on average common shareholders' equity was 8.79% for the three months ended March 31, 2015, compared to 9.30% in 2014. The return on total average assets was 1.14% for the three months ended March 31, 2015, compared to 1.18% in 2014.

The decrease in net income for the three months ended March 31, 2015, compared to the first three months of 2014, was the result of an increase in noninterest expense offset by an increase in net interest income and noninterest income along with a decrease in provision for loan and lease losses and income tax expense. Details of the changes in the various components of net income are discussed further below.

NET INTEREST INCOME

The taxable equivalent net interest income for the three months ended March 31, 2015 was $39.85 million, an increase of 1.96% over the same period in 2014. The net interest margin on a fully taxable equivalent basis was 3.58% for the three months ended March 31, 2015, compared to 3.59% for the three months ended March 31, 2014.

During the three month period ended March 31, 2015, average earning assets increased $97.08 million or 2.20% over the comparable period in 2014. Average interest-bearing liabilities increased $23.67 million or 0.71% for the three month period ended March 31, 2015 over the comparable period one year ago. The yield on average earning assets decreased 7 basis points to 3.96% for the first quarter of 2015 from 4.03% for the first quarter of 2014. The rate earned on assets decreased due to the reduction in loan and investment yields in the current interest rate environment. Total cost of average interest-bearing liabilities decreased 7 basis points to 0.51% for the first quarter of 2015 from 0.58% for the first quarter 2014. The result to the net interest margin, or the ratio of net interest income to average earning assets, was a decrease of 1 basis point for the three month period ended March 31, 2015 from March 31, 2014.

The largest contributor to the decrease in the yield on average earning assets for the three months ended March 31, 2015, compared to the three months ended March 31, 2014, was a reduction in yields on net loans and leases of 9 basis points. Average net loans and leases increased $130.86 million or 3.69% for the first quarter of 2015 from the first quarter of 2014. Total average investment securities decreased $43.04 million or 5.18% for the first quarter over one year ago. Average mortgages held for sale increased $7.43 million or 133.18% for the three month period ended March 31, 2015, over the comparable period a year ago. Average other investments, which include federal funds sold, time deposits with other banks, Federal Reserve Bank excess balances, Federal Reserve Bank and Federal Home Loan Bank stock and commercial paper, increased $1.82 million or 5.36% for the three month period ended March 31, 2015, over the comparable period a year ago.

Average interest-bearing deposits increased $73.42 million or 2.48% for the first quarter of 2015 over the same period in 2014. The effective rate paid on average interest-bearing deposits decreased 7 basis points to 0.34% for the first quarter 2015 compared to 0.41% for the first quarter 2014. The decline in the average cost of interest-bearing deposits during the first quarter of 2015 as compared to the first quarter of 2014 was primarily the result of the continued change in deposit mix.

Average short-term borrowings decreased $47.97 million or 17.90% for the first quarter of 2015 compared to the same period in 2014. Interest paid on short-term borrowings decreased 2 basis points for the first quarter of 2015. The decrease in short-term borrowings during the first quarter of 2015 as compared to the first quarter of 2014 was primarily the result of decreased borrowings with the Federal Home Loan Bank (FHLB). Average long-term debt and mandatorily redeemable securities decreased $1.79 million or 3.06% during the first quarter of 2015 as compared to the first quarter of 2014. Interest paid on long-term debt and mandatorily redeemable securities decreased 56 basis points for the first quarter compared to the first quarter of 2014 due to lower rates on mandatorily redeemable securities and lower effective rates on FHLB borrowings.

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The following table provides an analysis of net interest income and illustrates the interest income earned and interest expense charged for each major component of interest earning assets and interest bearing liabilities. Yields/rates are computed on a tax-equivalent basis, using a 35% rate. Nonaccrual loans and leases are included in the average loan and lease balance outstanding.

DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY
INTEREST RATES AND INTEREST DIFFERENTIAL

	Three Months Ended March 31,			2014		
	2015			2014		
(Dollars in thousands)	Average Balance	Interest Income/Expense	Yield/ Rate	Average Balance	Interest Income/Expense	Yield/ Rate
ASSETS						
Investment securities:						
Taxable	$665,577	$ 3,004	1.83 %	$706,115	$ 3,345	1.92 %
Tax exempt	122,984	1,134	3.74 %	125,483	1,213	3.92 %
Mortgages held for sale	13,007	126	3.93 %	5,578	70	5.09 %
Net loans and leases	3,674,082	39,531	4.36 %	3,543,219	38,919	4.45 %
Other investments	35,817	255	2.89 %	33,995	277	3.30 %
Total earning assets	4,511,467	44,050	3.96 %	4,414,390	43,824	4.03 %
Cash and due from banks	61,544			58,069		
Reserve for loan and lease losses	(85,791)			(84,268)		
Other assets	333,233			309,976		
Total assets	$4,820,453			$4,698,167		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing deposits	$3,029,179	$ 2,559	0.34 %	$2,955,755	$ 2,971	0.41 %
Short-term borrowings	219,950	103	0.19 %	267,919	136	0.21 %
Subordinated notes	58,764	1,055	7.28 %	58,764	1,055	7.28 %
Long-term debt and mandatorily redeemable securities	56,730	479	3.42 %	58,519	575	3.98 %
Total interest bearing liabilities	3,364,623	4,196	0.51 %	3,340,957	4,737	0.58 %
Noninterest-bearing deposits	787,776			714,200		
Other liabilities	44,657			48,323		
Shareholders' equity	623,397			594,687		
Total liabilities and shareholders' equity	$4,820,453			$4,698,167		
Net interest income		$ 39,854			$ 39,087	
Net interest margin on a tax equivalent basis			3.58 %			3.59 %

PROVISION AND RESERVE FOR LOAN AND LEASE LOSSES

The provision for loan and lease losses for the three month period ended March 31, 2015 was $0.36 million compared to a provision for loan and lease losses in the three month period ended March 31, 2014 of $0.80 million. Net charge-offs of $0.33 million were recorded for the first quarter 2015, compared to net recoveries of $0.70 million for the same quarter a year ago.

Weaknesses oversees could negatively impact the U.S. recovery, as could geopolitical events. Current concerns include the weak EU economies and deflationary pressures, the recessionary pressures in Japan and Brazil and the resultant decline in the value of the Brazilian Real, the continued slowdown in China, and the geopolitical threats to the Russian economy as a result of the crisis in the Ukraine as well as the economic decline due to Russia's significant dependence on oil. We include a factor in our loss ratios for the global risk, as we are increasingly aware of the threat that global concerns may affect our customers. While we are unable to determine with any precision the impact of global economic and political issues on our loan portfolios, we feel the risks are real and significant. We believe that there is a risk from these global economic factors of negative consequences for our borrowers that would affect their ability to repay their financial obligations. Therefore, we continue to include a factor for global risk in our analysis for the first quarter of 2015.

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Another area of concern continues to be our aircraft portfolio where we have collateral concentration and a sizable foreign exposure. The aircraft industry was among the sectors affected most by the sluggish economy. We have seen some evidence that depressed private jet markets have stabilized. As the U.S. economy slowly improves, the industry is likely to benefit and we should see a decrease in the fleet of unsold pre-owned aircraft which will result in further strengthening of values. Nevertheless, we remain concerned about the prolonged low prices for several models. We also have foreign exposure in this portfolio, particularly in Brazil and Mexico. The recession in Brazil and the currency fluctuations are having a negative impact on our client's cost of paying dollar denominated debts and, as a result throughout 2014 and into 2015, we have experienced higher delinquency in the portfolio and we continue to experience higher default rates in this portfolio than in our other lending segments. We assessed our ratios, which were established based on the higher and more volatile loss histories and pronounced exposure to global risks, and believe our reserve ratios remain appropriate.

On March 31, 2015, 30 day and over loan and lease delinquencies were 0.40% compared to 0.37% on March 31, 2014. The increase in delinquencies occurred primarily in the residential real estate portfolio. The reserve for loan and lease losses as a percentage of loans and leases outstanding at the end of the period was 2.30% as compared to 2.38% one year ago. A summary of loan and lease loss experience during the three months ended March 31, 2015 and 2014 is located in Note 5 of the Consolidated Financial Statements.

A loan or lease is considered impaired, based on current information and events, if it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan or lease agreement. We evaluate loans and leases exceeding $100,000 for impairment and establish a specific reserve as a component of the reserve for loan and lease losses when it is probable all amounts due will not be collected pursuant to the contractual terms of the loan or lease and the recorded investment in the loan or lease exceeds its fair value. A summary of impaired loans as of March 31, 2015 and December 31, 2014 is reflected in Note 4 of the Consolidated Financial Statements.

NONPERFORMING ASSETS

The following table shows nonperforming assets.

(Dollars in thousands)	March 31, 2015	December 31, 2014	March 31, 2014
Loans and leases past due 90 days or more	$190	$981	$307
Nonaccrual loans and leases	21,359	34,602	24,680
Other real estate	892	1,109	2,091
Former bank premises held for sale	626	626	801
Repossessions	4,607	5,156	7,998
Equipment owned under operating leases	36	6	—
Total nonperforming assets	$27,710	$42,480	$35,877

Nonperforming assets as a percentage of total loans and leases were 0.73% at March 31, 2015, 1.13% at December 31, 2014, and 0.98% at March 31, 2014. Nonperforming assets totaled $27.71 million at March 31, 2015, a decrease of 34.77% from the $42.48 million reported at December 31, 2014, and a 22.76% decrease from the $35.88 million reported at March 31, 2014. The decrease in nonperforming assets during the first three months of 2015 was primarily related to a decrease in nonaccrual loans and leases and the sale of repossessions as the economy slowly improves. The decrease in nonaccrual loans and leases at March 31, 2015 from December 31, 2014 occurred primarily in the commercial and agricultural, aircraft and commercial real estate portfolios. A summary of nonaccrual loans and leases and past due aging for the period ended March 31, 2015 and December 31, 2014 is located in Note 4 of the Consolidated Financial Statements.

Other real estate is the result of foreclosing on real estate in the local market for which we have a current appraisal and are well secured. Other real estate decreased over the past year due to current sales of existing properties outpacing current foreclosures.

Repossessions consisted mainly of aircraft financing. At the time of repossession, the recorded amount of the loan or lease is written down to the fair value of the equipment or vehicle by a charge to the reserve for loan and lease losses or other income, if a positive adjustment, unless the equipment is in the process of immediate sale. Any subsequent fair value write-downs or write-ups, to the extent of previous write-downs, are included in noninterest expense.

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The following table shows a summary of other real estate and repossessions.

(Dollars in thousands)	March 31, 2015	December 31, 2014	March 31, 2014
Commercial and agricultural	$—	$—	$—
Auto and light truck	40	25	93
Medium and heavy duty truck	—	—	—
Aircraft financing	4,543	5,123	7,892
Construction equipment financing	—	32	—
Commercial real estate	465	292	1,145
Residential real estate	141	530	659
Consumer	310	263	300
Total	$5,499	$6,265	$10,089

For financial statement purposes, nonaccrual loans and leases are included in loan and lease outstandings, whereas repossessions and other real estate are included in other assets.

Foreign Outstandings — Our foreign loan and lease outstandings, all denominated in U.S. dollars were $213.88 million and $224.51 million as of March 31, 2015 and December 31, 2014, respectively. Foreign loans and leases are in aircraft financing. Loan and lease outstandings to borrowers in Brazil and Mexico were $92.59 million and $107.92 million as of March 31, 2015, respectively, compared to $105.39 million and $100.76 million as of December 31, 2014, respectively. As of March 31, 2015 and December 31, 2014 there was not a significant concentration in any other country.

NONINTEREST INCOME

Noninterest income for the three month period ended March 31, 2015 and 2014 was $19.75 million and $19.40 million, respectively. The following table shows the details of noninterest income.

	Three Months Ended March 31,	
(Dollars in thousands)	2015	2014
Noninterest income:		
Trust fees	$4,557	$4,476
Service charges on deposit accounts	2,197	2,066
Debit card income	2,399	2,232
Mortgage banking income	1,251	1,334
Insurance commissions	1,305	1,563
Equipment rental income	5,079	4,082
Gains on investment securities available-for-sale	—	963
Other income	2,963	2,682
Total noninterest income	$19,751	$19,398

Noninterest income increased $0.35 million or 1.81% for the three months ended March 31, 2015 as compared to the same period in 2014. Mortgage banking income decreased slightly during the first quarter of 2015 compared to the same period in 2014.

Trust fees increased slightly during the first quarter of 2015 compared to the same period in 2014. Trust fees are largely based on the size of client relationships and the market value of assets under management. The market value of trust assets under management at March 31, 2015 and December 31, 2014 was $3.97 billion and $3.95 billion, respectively.

Service charges on deposit accounts increased $0.13 million or 6.34% for the three months ended March 31, 2015 over the comparable period one year ago. The increase in service charges on deposit accounts reflects an increase in statement fees over the same period a year ago due to a change in the fee structure.

Debit card income increased $0.17 million or 7.48% during the first quarter of 2015 compared to the same period in 2014. The increase in debit card income was the result of an increased volume of debit card transactions in 2015. Insurance commissions decreased $0.26 million or 16.51% for the three months ended March 31, 2015 over the comparable period one year ago. The decrease in insurance commissions was primarily due to a reduction in contingency commissions received during the first quarter of 2015 compared to the same period a year ago.

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Equipment rental income increased $1.00 million or 24.42% for the three months ended March 31, 2015 over the comparable period one year ago. The increase was the result of the average equipment rental portfolio increasing 24.30% over the same period a year ago due to improving market conditions for equipment finance.
There were no gains on investment securities available-for-sale during the first quarter of 2015 compared to a gain of $0.96 million during the first quarter of 2014 due to the sale of marketable equity securities.
Other income increased $0.28 million or 10.48% for the three months ended March 31, 2015 over the same period a year ago. The increase was the result of gains on partnership investments in 2015 offset by a one-time valuation adjustment in 2014 which was not present in 2015.

NONINTEREST EXPENSE

Noninterest expense for the three month period ended March 31, 2015 and 2014 was $38.06 million and $35.97 million, respectively. The following table shows the details of noninterest expense.

	Three Months Ended March 31,	
(Dollars in thousands)	2015	2014
Noninterest expense:		
Salaries and employee benefits	$20,925	$19,482
Net occupancy expense	2,461	2,437
Furniture and equipment expense	4,336	4,237
Depreciation - leased equipment	4,088	3,249
Professional fees	870	1,128
Supplies and communication	1,406	1,392
FDIC and other insurance	849	864
Business development and marketing expense	1,049	1,684
Loan and lease collection and repossession expense	363	(494)
Other expense	1,714	1,994
Total noninterest expense	$38,061	$35,973

Noninterest expense increased $2.09 million or 5.80% for the first quarter 2015 as compared to the same period in 2014. Net occupancy expense, supplies and communication expense and furniture and equipment expense increased slightly during the first quarter of 2015 compared to the same period a year ago. FDIC and other insurance expense decreased slightly during the first three months of 2015 compared to the same period a year ago.
Salaries and employee benefits increased $1.44 million or 7.41% for the three months ended March 31, 2015 compared to the same period in 2014. The increase for the first quarter 2015 was due to higher base salary, executive incentives and group insurance costs. Higher base salary expense was primarily due to more full-time equivalent employees as a result of opening three new banking centers in 2014 and increases from annual performance raises.
During the first quarter of 2015, depreciation on leased equipment increased $0.84 million or 25.82% in conjunction with the increase in equipment rental income as compared to the same period one year ago.
Professional fees decreased $0.26 million or 22.87% during the first quarter of 2015, as compared to the same period a year ago. The lower professional fees in 2015 was primarily the result of reduced utilization of consulting services.
Business development and marketing expense declined $0.64 million or 37.71% for the three months ended March 31, 2015 versus the three months ended March 31, 2014. The decrease during the first quarter of 2015 was mainly due to lower charitable contributions.
Loan and lease collection and repossession expense increased $0.86 million or 173.48% for the three months ended March 31, 2015 compared to the same period in 2014 primarily due to lower gains on the sale of other real estate owned and repossessions and increased valuation adjustments offset by lower collection and repossession expenses.
Other expenses decreased $0.28 million or 14.04% in the three month period ended March 31, 2015 as compared to the same period in 2014. The decrease during the first quarter related to lower operating costs on a closed bank property and lower provision on unfunded loan commitments offset by reduced gains on the sale of off lease equipment.

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INCOME TAXES

The provision for income taxes for the three month period ended March 31, 2015 was $7.26 million compared to $7.61 million for the same period in 2014. The effective tax rates were 34.95% and 35.82% for the first quarter ended March 31, 2015 and 2014, respectively.

ITEM 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risks faced by 1st Source since December 31, 2014. For information regarding our market risk, refer to 1st Source's Annual Report on Form 10-K for the year ended December 31, 2014.

ITEM 4.

CONTROLS AND PROCEDURES

As of the end of the period covered by this report an evaluation was carried out, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, at March 31, 2015, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by 1st Source in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and are designed to ensure that information required to be disclosed in those reports is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

In addition, there were no changes in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the first fiscal quarter of 2015 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.

1st Source and its subsidiaries are involved in various legal proceedings incidental to the conduct of our businesses. Management does not expect that the outcome of any such proceedings will have a material adverse effect on our consolidated financial position or results of operations.

ITEM 1A. Risk Factors.

There have been no material changes in risks faced by 1st Source since December 31, 2014. For information regarding our risk factors, refer to 1st Source's Annual Report on Form 10-K for the year ended December 31, 2014.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs*	Maximum Number (or Approximate Dollar Value) of Shares that may yet be Purchased Under the Plans or Programs
January 01 - 31, 2015	—	$—	—	1,981,452
February 01 - 28, 2015	42,276	31.28	42,276	1,939,176
March 01 - 31, 2015	52,870	31.04	52,870	1,886,306

* 1st Source maintains a stock repurchase plan that was authorized by the Board of Directors on July 24, 2014. Under the terms of the plan, 1st Source may repurchase up to 2,000,000 shares of its common stock from time to time to

mitigate the potential dilutive effects of stock-based incentive plans and other potential uses of common stock for corporate purposes. Since the inception of the plan, 1st Source has repurchased a total of 113,694 shares.

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ITEM 3. Defaults Upon Senior Securities.
None
ITEM 4. Mine Safety Disclosures.
None
ITEM 5. Other Information.
None
ITEM 6. Exhibits
The following exhibits are filed with this report:

31.1	Certification of Chief Executive Officer required by Rule 13a-14(a).
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a).
32.1	Certification pursuant to 18 U.S.C. Section 1350 of Chief Executive Officer.
32.2	Certification pursuant to 18 U.S.C. Section 1350 of Chief Financial Officer.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		1st Source Corporation
DATE	April 23, 2015	/s/ CHRISTOPHER J. MURPHY III Christopher J. Murphy III Chairman of the Board and CEO
DATE	April 23, 2015	/s/ ANDREA G. SHORT Andrea G. Short Treasurer and Chief Financial Officer Principal Accounting Officer