



ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

1st Source Corporation

Person to be contacted regarding this report:	Larry Lentych
UST Sequence Number:	292
CPP Funds Received:	111,000,000
CPP Funds Repaid to Date:	0
Date Funded (first funding):	Jan 23, 2009
Date Repaid ¹ :	N/A

RSSD: (For Bank Holding Companies)	1199602
Holding Company Docket Number: (For Thrift Holding Companies)	
FDIC Certificate Number: (For Depository Institutions)	
City:	South Bend
State:	Indiana

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

<input checked="" type="checkbox"/>	Increase lending or reduce lending less than otherwise would have occurred.	Total loans and leases outstanding decreased \$205.1million or 6.2% at 12/31/09 from 12/31/08, primarily from reduced demand for working capital among business clients, a slow down in home building and sales, and a shift to savings by consumers.
<input type="checkbox"/>	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	
<input checked="" type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	Investment securities outstanding increased \$176.9 million or 24.4% at 12/31/09 from 12/31/08. Primary increases occurred in Federal agencies securities and in mortgage-backed securities with Federal agencies.

<input checked="" type="checkbox"/>	Make other investments	Federal funds sold and interest bearing deposits with other banks increased \$134.2 million or 1,930.9% at 12/31/09 from 12/31/08 as loan demand in our own markets had reduced considerably and we did not think it appropriate to extend on the interest rate curve.
<input checked="" type="checkbox"/>	Increase reserves for non-performing assets	Reserve for loan and lease losses increased \$8.5 million at 12/31/09 from 12/31/08 which is a 10.6% increase with a growth in the reserve from 2.42% of net loans and leases outstanding at 12/31/08 to 2.85% of net loans and leases outstanding at 12/31/09.
<input checked="" type="checkbox"/>	Reduce borrowings	Short and long-term borrowings decreased \$158.8 million or 52.5% at 12/31/09 from 12/31/08 as demand for credit reduced with the downturn in our regional economy.
<input checked="" type="checkbox"/>	Increase charge-offs	Net charge-offs for 2009 were \$22.6 million compared to \$3.5 million for 2008 reflecting the continued degradation of the local and regional economies and the decline in values of assets securing specialty financing operations.
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input checked="" type="checkbox"/>	Held as non-leveraged increase to total capital	Total capital at 12/31/09 was \$570.3 million compared to \$453.7 million at 12/31/08 and includes \$111.0 million of TARP CPP funds.

What actions were you able to avoid because of the capital infusion of CPP funds?

We have not exited any lines of business and are committed to serving all of the markets in which we have competed for many years. More importantly, the capital infusion of CPP funds assured liquidity during a period of substantial turmoil in the national capital markets.

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

Upon receipt of the CPP funds, we placed \$31 million with 1st Source Bank in a repurchase agreement and down-streamed the balance (\$80 million) to the Bank as paid-in-capital. The proceeds are commingled with other funds and have been used in a variety of areas including cash, investments and loans. We used the CPP funds to bolster capital and to continue to meet the needs of our current and prospective customers in the local, regional, and national niche markets we serve. We have focused our resources on working with our clients during this difficult period and reaffirmed our long-standing approach to working with each customer one-on-one and reserving foreclosure and other default remedies as a last resort. We have sought new relationships with local businesses and individuals who were abandoned and left hanging by the larger banking institutions in our markets. We continue to focus our efforts on supporting home ownership in our markets, with the increase in volume of refinancings hopefully leading to lower costs for our customers. Overall, however, we have seen local demand for financing from individuals and businesses decrease substantially due to concerns about unemployment and fear of the future. We have taken on new customers in Elkhart county and Fulton county providing products and services in the manufactured housing and recreational vehicle markets amounting to commitments of approximately \$21 million.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.



According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1505-0222. The time required to complete this information collection is estimated to average 80 hours per response.