IHS Inc.
Form 4
April 01, 2008

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Yergin Daniel

(Last) (First) (Middle)

C/O IHS INC., 15 INVERNESS WAY EAST

(Street)

ENGLEWOOD, CO 80112

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
IHS Inc. [IHS]

3. Date of Earliest Transaction (Month/Day/Year)
03/31/2008

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Exec VP, Strategic Advisor

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Class A Common Stock	03/31/2008		S		80 (1)	D	$ 64.4	114,304	D	
Class A Common Stock	03/31/2008		S		100 (1)	D	$ 64.46	114,204	D	
Class A Common Stock	03/31/2008		S		100 (1)	D	$ 64.96	114,104	D	
Class A Common	03/31/2008		S		100 (1)	D	$ 65.07	114,004	D	

Stock								
Class A Common Stock	03/31/2008		S	200 (1)	D	$ 65.16	113,804	D
Class A Common Stock	03/31/2008		S	46 (1)	D	$ 65.2	113,758	D
Class A Common Stock	03/31/2008		S	100 (1)	D	$ 65.22	113,658	D
Class A Common Stock	03/31/2008		S	54 (1)	D	$ 65.24	113,604	D
Class A Common Stock	03/31/2008		S	100 (1)	D	$ 65.28	113,504	D

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other

Yergin Daniel
C/O IHS INC.
15 INVERNESS WAY EAST
ENGLEWOOD, CO 80112

Exec VP,
Strategic
Advisor

Signatures

s/Stephen Green, as Attorney-in-Fact for the Reporting Person — 04/01/2008

**Signature of Reporting Person — Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Sold pursuant to the reporting person's previously adopted Rule 10b5-1 trading plan.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. :10pt;">
N/A

—

Mortgages held for sale

10

Total - December 31, 2017

$
784,444

$
5,233

$
5,272

The following table shows the amounts included in the Statements of Income for non-hedging derivative financial instruments at December 31, 2018, 2017 and 2016.

		Gain (loss)		
(Dollars in thousands)	Statement of Income classification	2018	2017	2016
Interest rate swap contracts	Other expense	$(30)	$26	$64
Interest rate swap contracts	Other income	1,028	1,585	730
Loan commitments	Mortgage banking	46	23	(4)

Forward contracts - mortgage loan	Mortgage banking	(125)	(232)	209
Total		$919	$1,402	$999

The following table shows the offsetting of financial assets and derivative assets at December 31, 2018 and 2017.

(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	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
				Financial Instruments.	Cash Collateral Received	
December 31, 2018						
Interest rate swaps	$ 7,128	$ 4	$ 7,124	$ 177	$ 610	$ 6,337
December 31, 2017						
Interest rate swaps	$ 5,194	$ 27	$ 5,167	$—	$ —	$ 5,167

68

Table of Contents

The following table shows the offsetting of financial liabilities and derivative liabilities at December 31, 2018 and 2017.

(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
December 31, 2018						
Interest rate swaps	$ 7,254	$ 4	$ 7,250	$ 1,700	$ —	$ 5,550
Repurchase agreements	103,627	—	103,627	103,627	—	—
Total	$ 110,881	$ 4	$ 110,877	$ 105,327	$ —	$ 5,550
December 31, 2017						
Interest rate swaps	$ 5,289	$ 27	$ 5,262	$—	$ 2,705	$ 2,557
Repurchase agreements	149,835	—	149,835	149,835	—	—
Total	$ 155,124	$ 27	$ 155,097	$ 149,835	$ 2,705	$ 2,557

If a default in performance of any obligation of a repurchase or derivative agreement occurs, each party will set-off property held, or loan indebtedness owing, in respect of transactions against obligations owing in respect of any other transactions. At December 31, 2018 and December 31, 2017, repurchase agreements had a remaining contractual maturity of $102.34 million and $148.22 million in overnight, $1.29 million and $1.32 million in up to 30 days and $0.00 million and $0.30 million in greater than 90 days, respectively and were collateralized by U.S. Treasury and Federal agencies securities.

Note 20 — Regulatory Matters

The Company is subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a material effect on the Company’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classification are subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total capital, Tier 1 capital, and common equity Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. The Company believes that it meets all capital adequacy requirements to which it is subject.

The most recent notification from the Federal bank regulators categorized 1st Source Bank, the largest of its subsidiaries, as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized” the Bank must maintain minimum total risk-based, Tier 1 risk-based, common equity Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that the Company believes will have changed the institution’s category.

69

Table of Contents

As discussed in Note 12, the capital securities held by the Capital Trusts qualify as Tier 1 capital under Federal Reserve Board guidelines. The following table shows the actual and required capital amounts and ratios for 1st Source Corporation and 1st Source Bank as of December 31, 2018 and 2017.

	Actual		Minimum Capital Adequacy		Minimum Capital Adequacy with Capital Buffer[1]		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
2018								
Total Capital (to Risk-Weighted Assets):								
1st Source Corporation	$821,975	14.68%	$447,909	8.00%	$552,888	9.875%	$559,887	10.00%
1st Source Bank	744,326	13.29	448,152	8.00	553,188	9.875	560,190	10.00
Tier 1 Capital (to Risk-Weighted Assets):								
1st Source Corporation	751,575	13.42	335,932	6.00	440,911	7.875	447,909	8.00
1st Source Bank	673,888	12.03	336,114	6.00	441,150	7.875	448,152	8.00
Common Equity Tier 1 Capital (to Risk-Weighted Assets):								
1st Source Corporation	693,067	12.38	251,949	4.50	356,928	6.375	363,926	6.50
1st Source Bank	672,380	12.00	252,086	4.50	357,121	6.375	364,124	6.50
Tier 1 Capital (to Average Assets):								
1st Source Corporation	751,575	12.06	249,185	4.00	N/A	N/A	311,481	5.00
1st Source Bank	673,888	10.82	249,052	4.00	N/A	N/A	311,315	5.00
2017								
Total Capital (to Risk-Weighted Assets):								
1st Source Corporation	$764,853	14.70%	$416,174	8.00%	$481,201	9.250%	$520,218	10.00%
1st Source Bank	696,248	13.36	416,902	8.00	482,043	9.250	521,127	10.00
Tier 1 Capital (to Risk-Weighted Assets):								
1st Source Corporation	699,420	13.44	312,131	6.00	377,158	7.250	416,174	8.00
1st Source Bank	630,702	12.10	312,676	6.00	377,817	7.250	416,902	8.00
Common Equity Tier 1 Capital (to Risk-Weighted Assets):								
1st Source Corporation	642,420	12.35	234,098	4.50	299,125	5.750	338,142	6.50
1st Source Bank	630,702	12.10	234,507	4.50	299,648	5.750	338,733	6.50
Tier 1 Capital (to Average Assets):								
1st Source Corporation	699,420	12.17	229,890	4.00	N/A	N/A	287,362	5.00
1st Source Bank	630,702	10.98	229,789	4.00	N/A	N/A	287,236	5.00

(1) The capital conservation buffer requirement will be phased in over three years beginning in 2016. The capital buffer requirement effectively raises the minimum required common equity Tier 1 capital ratio to 7.0%, the Tier 1 capital ratio to 8.5%, and the total capital ratio to 10.5% on a fully phased-in basis.

The Bank was not required to maintain noninterest bearing cash balances with the Federal Reserve Bank as of December 31, 2018 and 2017.

Dividends that may be paid by a subsidiary bank to the parent company are subject to certain legal and regulatory limitations and also may be affected by capital needs, as well as other factors.

Due to the Company's mortgage activities, 1st Source Bank is required to maintain minimum net worth capital requirements established by various governmental agencies. 1st Source Bank's net worth requirements are governed by the Department of Housing and Urban Development and GNMA. As of December 31, 2018, 1st Source Bank met its minimum net worth capital requirements.

70

Table of Contents

Note 21 — Fair Value Measurements

The Company determines the fair values of its financial instruments based on the fair value hierarchy, which requires an entity to maximize the use of quoted prices and observable inputs and to minimize the use of unobservable inputs when measuring fair value. 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 December 31, 2018 and 2017, all mortgages held for sale are carried at fair value.

The following table shows the differences between 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 on December 31, 2018 and 2017.

(Dollars in thousands)	Fair value carrying amount	Aggregate unpaid principal	Excess of fair value carrying amount over (under) unpaid principal	
December 31, 2018				
Mortgages held for sale reported at fair value:				
Total Loans	$ 11,290	$ 11,076	$ 214	(1)
December 31, 2017				
Mortgages held for sale reported at fair value:				
Total Loans	$ 13,123	$ 12,967	$ 156	(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.
- 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.
- Inactively traded government-sponsored agency securities are primarily priced using consensus pricing and dealer quotes.

71

Table of Contents

- 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 incorporates a credit spread assumption.

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. Any change in the mid-market derivative valuation adjustment will be recognized immediately through the Consolidated Statements of Income.

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
December 31, 2018				
Assets:				
Investment securities available-for-sale:				
U.S. Treasury and Federal agencies securities	$33,746	$497,477	$—	$531,223
U.S. States and political subdivisions securities	—	93,557	1,025	94,582
Mortgage-backed securities - Federal agencies	—	318,233	—	318,233
Corporate debt securities	—	45,392	—	45,392
Foreign government and other securities	—	699	—	699
Total debt securities available-for-sale	33,746	955,358	1,025	990,129
Mortgages held for sale	—	11,290	—	11,290
Accrued income and other assets (interest rate swap agreements)	—	7,124	—	7,124
Total	$33,746	$973,772	$1,025	$1,008,543
Liabilities:				
Accrued expenses and other liabilities (interest rate swap agreements)	$—	$7,250	$—	$7,250
Total	$—	$7,250	$—	$7,250
December 31, 2017				
Assets:				
Investment securities available-for-sale:				
U.S. Treasury and Federal agencies securities	$27,971	$440,148	$—	$468,119
U.S. States and political subdivisions securities	—	113,845	2,155	116,000
Mortgage-backed securities - Federal agencies	—	287,910	—	287,910
Corporate debt securities	—	31,294	—	31,294
Foreign government and other securities	—	—	710	710
Total debt securities available-for-sale	27,971	873,197	2,865	904,033
Mortgages held for sale	—	13,123	—	13,123
Accrued income and other assets (interest rate swap agreements)	—	5,167	—	5,167
Total	$27,971	$891,487	$2,865	$922,323

Liabilities:				
Accrued expenses and other liabilities (interest rate swap agreements)	$—	$5,262	$—	$5,262
Total	$—	$5,262	$—	$5,262

72

Table of Contents

The following table shows the changes in Level 3 assets and liabilities measured at fair value on a recurring basis.

(Dollars in thousands)	U.S. States and political subdivisions securities	Foreign government and other securities	Investment securities available-for-sale
Beginning balance January 1, 2018	$ 2,155	$ 710	$ 2,865
Total gains or losses (realized/unrealized):			
Included in earnings	—	—	—
Included in other comprehensive income	6	(11)	(5)
Purchases	—	200	200
Issuances	—	—	—
Sales	—	—	—
Settlements	—	—	—
Maturities	(1,136)	(200)	(1,336)
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	(699)	(699)
Ending balance December 31, 2018	$ 1,025	$ —	$ 1,025
Beginning balance January 1, 2017	$ 2,699	$ 807	$ 3,506
Total gains or losses (realized/unrealized):			
Included in earnings	—	—	—
Included in other comprehensive income	31	3	34
Purchases	1,437	500	1,937
Issuances	—	—	—
Sales	—	—	—
Settlements	—	—	—
Maturities	(2,012)	(600)	(2,612)
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Ending balance December 31, 2017	$ 2,155	$ 710	$ 2,865

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 December 31, 2018 or 2017. A foreign government debt security was transferred from Level 3 to Level 2 during 2018 due to the Company’s periodic review of valuation methodologies and inputs. The Company determined that the observable inputs used in determining fair value warranted a transfer to Level 2 as the unobservable inputs were deemed to be insignificant to the overall fair value measurement. No transfers between levels occurred during 2017.

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
December 31, 2018				
Debt securities available-for-sale				
Direct placement municipal securities	$ 1,025	Discounted cash flows	Credit spread assumption	0.17% - 3.02%
December 31, 2017				
Debt securities available-for-sale				
Direct placement municipal securities	$ 2,155	Discounted cash flows	Credit spread assumption	2.21% - 2.93%

Foreign government	$ 710	Discounted cash flows	Market yield assumption	0.35% - 1.23%

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.

73

Table of Contents

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 gain 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.
During 2017, partnership investments and the adjustments to fair value primarily resulted from application of lower of cost or fair value accounting. The partnership investments were priced using financial statements provided by the partnerships. Quantitative unobservable inputs were 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 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 year ended December 31, 2018 and 2017, respectively: impaired loans - $12.46

million and $0.50 million; partnership investments - $0.00 million and $0.00 million; MSRs - $0.00 million and $0.00 million; repossessions - $1.92 million and $0.79 million, and other real estate - $0.00 million and $0.05 million.

74

Table of Contents

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
December 31, 2018				
Impaired loans - collateral based	$ —	$ —	$7,306	$7,306
Accrued income and other assets (mortgage servicing rights)	—	—	4,283	4,283
Accrued income and other assets (repossessions)	—	—	6,666	6,666
Accrued income and other assets (other real estate)	—	—	299	299
Total	$ —	$ —	$18,554	$18,554
December 31, 2017				
Impaired loans - collateral based	$ —	$ —	$7,994	$7,994
Accrued income and other assets (partnership investments)	—	—	1,000	1,000
Accrued income and other assets (mortgage servicing rights)	—	—	4,349	4,349
Accrued income and other assets (repossessions)	—	—	10,114	10,114
Accrued income and other assets (other real estate)	—	—	1,312	1,312
Total	$ —	$ —	$24,769	$24,769

The following table 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
December 31, 2018					
Impaired loans	$ 7,306	$ 7,306	Collateral based measurements including appraisals, trade publications, and auction values	Discount for lack of marketability and current conditions	20% - 35%
Mortgage servicing rights	4,283	7,238	Discounted cash flows	Constant prepayment rate (CPR)	7.2% - 24.8%
				Discount rate	10.3% - 13.1%
Repossessions	6,666	6,991	Appraisals, trade publications and auction values	Discount for lack of marketability	4% - 6%
Other real estate	299	305	Appraisals	Discount for lack of marketability	0% - 10%
December 31, 2017					
Impaired loans	$ 7,994	$ 7,994	Collateral based measurements including appraisals, trade publications, and auction values	Discount for lack of marketability and current conditions	3% - 20%
Mortgage servicing rights	4,349	7,187	Discounted cash flows	Constant prepayment rate (CPR)	8.6% - 20.7%
				Discount rate	9.6% - 12.5%
Repossessions	10,114	10,493			3% - 10%

			Appraisals, trade publications and auction values	Discount for lack of marketability	
Other real estate	1,312	1,441	Appraisals	Discount for lack of marketability	7% - 9%

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.

75

Table of Contents

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
December 31, 2018					
Assets:					
Cash and due from banks	$ 94,907	$94,907	$94,907	$—	$ —
Federal funds sold and interest bearing deposits with other banks	4,172	4,172	4,172	—	—
Investment securities, available-for-sale	990,129	990,129	33,746	955,358	1,025
Other investments	28,404	28,404	28,404	—	—
Mortgages held for sale	11,290	11,290	—	11,290	—
Loans and leases, net of reserve for loan and lease losses	4,734,995	4,689,267	—	—	4,689,267
Mortgage servicing rights	4,283	7,238	—	—	7,238
Interest rate swaps	7,124	7,124	—	7,124	—
Liabilities:					
Deposits	$ 5,122,322	$5,111,711	$3,654,556	$1,457,155	$ —
Short-term borrowings	199,344	199,344	113,734	85,610	—
Long-term debt and mandatorily redeemable securities	71,123	68,751	—	68,751	—
Subordinated notes	58,764	45,874	—	45,874	—
Interest rate swaps	7,250	7,250	—	7,250	—
Off-balance-sheet instruments *	—	259	—	259	—
December 31, 2017					
Assets:					
Cash and due from banks	$ 73,635	$73,635	$73,635	$—	$ —
Federal funds sold and interest bearing deposits with other banks	4,398	4,398	4,398	—	—
Investment securities, available-for-sale	904,033	904,033	27,971	873,197	2,865
Other investments	25,953	25,953	25,953	—	—
Mortgages held for sale	13,123	13,123	—	13,123	—
Loans and leases, net of reserve for loan and lease losses	4,432,795	4,428,848	—	—	4,428,848
Mortgage servicing rights	4,349	7,187	—	—	7,187
Interest rate swaps	5,167	5,167	—	5,167	—
Liabilities:					
Deposits	$ 4,752,730	$4,745,111	$3,482,757	$1,262,354	$ —
Short-term borrowings	214,595	214,595	206,862	7,733	—
Long-term debt and mandatorily redeemable securities	70,060	67,857	—	67,857	—
Subordinated notes	58,764	57,103	—	57,103	—
Interest rate swaps	5,262	5,262	—	5,262	—
Off-balance-sheet instruments *	—	286	—	286	—

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

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.

Table of Contents

Note 22 — 1st Source Corporation (Parent Company Only) Financial Information

STATEMENTS OF FINANCIAL CONDITION

December 31 (Dollars in thousands)	2018	2017
ASSETS		
Cash and cash equivalents	$106,647	$100,155
Short-term investments with bank subsidiary	500	500
Investments in:		
Bank subsidiaries	740,697	706,119
Non-bank subsidiaries	1	1
Other assets	4,191	2,696
Total assets	$852,036	$809,471
LIABILITIES AND SHAREHOLDERS' EQUITY		
Commercial paper	$4,325	$6,115
Long-term debt and mandatorily redeemable securities	24,676	22,942
Subordinated notes	58,764	58,764
Other liabilities	2,189	3,113
Total liabilities	89,954	90,934
Total shareholders' equity	762,082	718,537
Total liabilities and shareholders' equity	$852,036	$809,471

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Year Ended December 31 (Dollars in thousands)	2018	2017	2016
Income:			
Dividends from bank subsidiary	$45,080	$38,317	$36,064
Dividends from non-bank subsidiary	—	958	—
Rental income from subsidiaries	2,613	2,354	2,363
Other	367	422	444
Investment securities and other investment (losses) gains	(180)	6,431	3,901
Total income	47,880	48,482	42,772
Expenses:			
Interest on subordinated notes	3,625	4,002	4,220
Interest on long-term debt and mandatorily redeemable securities	1,624	1,685	1,454
Interest on commercial paper and other short-term borrowings	14	17	20
Rent	1,774	2,070	1,739
Other	642	1,733	1,179
Total expenses	7,679	9,507	8,612
Income before income tax benefit and equity in undistributed income of subsidiaries	40,201	38,975	34,160
Income tax benefit	1,009	204	741
Income before equity in undistributed income of subsidiaries	41,210	39,179	34,901
Equity in undistributed income of subsidiaries:			
Bank subsidiaries	41,204	28,872	22,569
Non-bank subsidiaries	—	—	316
Net income	$82,414	$68,051	$57,786
Comprehensive income	$75,788	$63,375	$52,575

Table of Contents

STATEMENTS OF CASH FLOWS

Year Ended December 31 (Dollars in thousands)	2018	2017	2016
Operating activities:			
Net income	$82,414	$68,051	$57,786
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity (undistributed) distributed in excess of income of subsidiaries	(41,204)	(28,872)	(22,885)
Depreciation of premises and equipment	2	2	4
Stock-based compensation	71	48	52
Realized/unrealized investment securities and other investment losses (gains)	180	(6,431)	(3,901)
Other	45	4,122	3,132
Net change in operating activities	41,508	36,920	34,188
Investing activities:			
Proceeds from sales and maturities of investment securities	—	6,327	1,795
Net change in partnership investments	(980)	(62)	2,903
Return of capital from subsidiaries	—	854	—
Net change in investing activities	(980)	7,119	4,698
Financing activities:			
Net change in commercial paper	(1,790)	354	(2,281)
Proceeds from issuance of long-term debt and mandatorily redeemable securities	1,867	1,248	1,607
Payments on long-term debt and mandatorily redeemable securities	(1,064)	(667)	(627)
Stock issued under stock purchase plans	145	153	120
Net proceeds from issuance of treasury stock	1,763	2,176	2,636
Acquisition of treasury stock	(9,271)	(41)	(8,030)
Cash dividends paid on common stock	(25,686)	(20,431)	(19,416)
Net change in financing activities	(34,036)	(17,208)	(25,991)
Net change in cash and cash equivalents	6,492	26,831	12,895
Cash and cash equivalents, beginning of year	100,155	73,324	60,429
Cash and cash equivalents, end of year	$106,647	$100,155	$73,324

78

Table of Contents

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.
None
Item 9A. Controls and Procedures.
1st Source carried out an evaluation, 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 December 31, 2018, 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 fourth fiscal quarter of 2018 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.
MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
Management of 1st Source Corporation ("1st Source") is responsible for establishing and maintaining adequate internal control over financial reporting. 1st Source's internal control over financial reporting includes policies and procedures pertaining to 1st Source's ability to record, process, and report reliable information. Actions are taken to correct any deficiencies as they are identified through internal and external audits, regular examinations by bank regulatory agencies, 1st Source's formal risk management process, and other means. 1st Source's internal control system is designed to provide reasonable assurance to 1st Source's management and Board of Directors regarding the preparation and fair presentation of 1st Source's published financial statements.
All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.
1st Source's management assessed the effectiveness of internal control over financial reporting as of December 31, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework (2013 framework). Based on management's assessment, 1st Source believes that, as of December 31, 2018, 1st Source's internal control over financial reporting is effective based on those criteria.
BKD LLP, independent registered public accounting firm, has issued an attestation report on management's assessment of 1st Source's internal control over financial reporting. This report appears on page 38.
By /s/ CHRISTOPHER J. MURPHY III
Christopher J. Murphy III, Chief Executive Officer

By /s/ ANDREA G. SHORT
Andrea G. Short, Treasurer and Chief Financial Officer
South Bend, Indiana
Item 9B. Other Information.
None

Table of Contents

Part III

Item 10. Directors, Executive Officers and Corporate Governance.

The information under the caption “Proposal Number 1: Election of Directors,” “Board Committees and Other Corporate Governance Matters,” and “Section 16(a) Beneficial Ownership Reporting Compliance” of the 2019 Proxy Statement is incorporated herein by reference.

Item 11. Executive Compensation.

The information under the caption “Compensation Discussion & Analysis” of the 2019 Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information under the caption “Voting Securities and Principal Holders Thereof” and “Proposal Number 1: Election of Directors” of the 2019 Proxy Statement is incorporated herein by reference.

The following table shows Equity Compensation Plan Information as of December 31, 2018.

	(A) Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans [excluding securities reflected in column (A)]	
Equity compensation plans approved by shareholders				
2011 Stock Option Plan	—	$ —	250,000	
1997 Employee Stock Purchase Plan	6,640	50.60	120,449	
1982 Executive Incentive Plan	—	—	96,876	(1)(2)
1982 Restricted Stock Award Plan	—	—	229,538	(1)
Strategic Deployment Incentive Plan	—	—	98,645	(1)(2)
Total plans approved by shareholders	6,640	$ 50.60	795,508	
Equity compensation plans not approved by shareholders				
Director Retainer Stock Plan	—	—	47,418	
Total equity compensation plans	6,640	$ 50.60	842,926	

(1) Amount is to be awarded by grants administered by the Executive Compensation and Human Resources Committee of the 1st Source Corporation Board of Directors.

(2) Amount includes market value stock only. Book value shares used for annual awards may only be sold to 1st Source.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information under the caption “Proposal Number 1: Election of Directors”, “Board Committees and Other Corporate Governance Matters, “ and “Transactions with Related Persons” of the 2019 Proxy Statement is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

The information under the caption “Relationship with Independent Registered Public Accounting Firm” of the 2019 Proxy Statement is incorporated herein by reference.

Table of Contents

Part IV

Item 15. Exhibits and Financial Statement Schedules.

(a) Financial Statements and Schedules:

The following Financial Statements and Supplementary Data are filed as part of this annual report:

Financial statement schedules required by Article 9 of Regulation S-X are not required under the related instructions, or are inapplicable and, therefore, have been omitted.

(b) Exhibits (numbered in accordance with Item 601 of Regulation S-K):

3(a)	Articles of Incorporation of Registrant, amended April 30, 1996, filed as exhibit to Form 10-K, dated December 31, 2017, and incorporated herein by reference.
3(b)	By-Laws of Registrant, as amended October 22, 2015, filed as an exhibit to Form 10-K, dated December 31, 2015, and incorporated herein by reference.
3(c)	Certificate of Designations for Series A Preferred Stock, dated January 23, 2009, filed as exhibit to Form 8-K, dated January 23, 2009, and incorporated herein by reference.
4(a)	Form of Common Stock Certificates of Registrant, filed as exhibit to Registration Statement 2-40481 and incorporated herein by reference.
4(b)	1st Source agrees to furnish to the Commission, upon request, a copy of each instrument defining the rights of holders of Senior and Subordinated debt of 1st Source.
10(a)(1)	Employment Agreement of Christopher J. Murphy III, dated January 1, 2008, filed as exhibit to Form 8-K, dated March 17, 2008, amended February 6, 2014, filed as exhibit to Form 8-K, dated March 12, 2014, and incorporated herein by reference.
10(a)(2)	Employment Agreement of Andrea G. Short dated January 1, 2013, filed as exhibit to Form 10-K, dated December 31, 2012, amended February 6, 2014, filed as exhibit to Form 8-K, dated March 12, 2014, and incorporated herein by reference.
10(a)(3)	Employment Agreement of John B. Griffith, dated January 1, 2008, filed as exhibit to Form 8-K, dated March 17, 2008, amended February 6, 2014, filed as exhibit to Form 8-K, dated March 12, 2014, and incorporated herein by reference.
10(a)(4)	Employment Agreement of James R. Seitz, dated May 23, 2017, filed as an exhibit to Form 8-K, dated May 23, 2017, and incorporated herein by reference.
10(a)(5)	Employment Agreement of Jeffrey L. Buhr, dated May 23, 2017, filed as an exhibit to Form 8-K, dated May 23, 2017, and incorporated herein by reference.
10(b)	1st Source Corporation Employee Stock Purchase Plan dated April 17, 1997, filed as exhibit to Form 10-K, dated December 31, 2017, and incorporated herein by reference.

10(c)	1st Source Corporation 1982 Executive Incentive Plan, amended November 9, 2016, filed as an exhibit to Form 10-K, dated December 31, 2016, and incorporated herein by reference.
10(d)	1st Source Corporation 1982 Restricted Stock Award Plan, amended November 9, 2016, filed as Exhibit 4.3 to Registration Statement on Form S-8 No. 333-215910, filed February 6, 2017, and incorporated herein by reference.
10(e)	1st Source Corporation Strategic Deployment Incentive Plan, amended February 26, 2016, filed as exhibit to registrant's 2016 definitive proxy statement, filed March 15, 2016, and incorporated herein by reference.
10(f)	1st Source Corporation 2011 Stock Option Plan, amended November 9, 2016, filed as exhibit to Form 10-K, dated December 31, 2016, and incorporated herein by reference.
10(g)	1st Source Corporation Director Retainer Stock Plan, amended August 3, 2018, filed as exhibit to Form 10-Q, dated September 30, 2018, and incorporated herein by reference.

81

Table of Contents

21 Subsidiaries of Registrant (unless otherwise indicated, each subsidiary does business under its own name):

Name	Jurisdiction
1st Source Bank	Indiana
SFG Aircraft, Inc. * (formerly known as SFG Equipment Leasing, Inc.)	Indiana
1st Source Insurance, Inc. *	Indiana
1st Source Specialty Finance, Inc. *	Indiana
1st Source Capital Corporation *	Indiana
Trustcorp Mortgage Company (Inactive)	Indiana
1st Source Master Trust	Delaware
Michigan Transportation Finance Corporation *	Michigan
1st Source Intermediate Holding, LLC	Delaware
1st Source Funding, LLC (Inactive)	Delaware
1st Source Corporation Investment Advisors, Inc. *	Indiana
SFG Commercial Aircraft Leasing, Inc. *	Indiana
SFG Equipment Leasing Corporation I*	Indiana
Washington and Michigan Insurance, Inc.*	Arizona
1st Source Solar 1, LLC*	Delaware
1st Source Solar 2, LLC	Delaware

*Wholly-owned subsidiaries of 1st Source Bank

23 Consent of BKD, LLP, Independent Registered Public Accounting Firm.

31.1 Certification of Christopher J. Murphy III, Chief Executive Officer (Rule 13a-14(a)).

31.2 Certification of Andrea G. Short, Chief Financial Officer (Rule 13a-14(a)).

32.1 Certification of Christopher J. Murphy III, Chief Executive Officer.

32.2 Certification of Andrea G. Short, 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

(c) Financial Statement Schedules — None.

Table of Contents

Item 16. Form 10-K Summary.
Not provided.
Signatures
Pursuant to the requirements of Section 13 or 15(d) 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
By/s/ CHRISTOPHER J. MURPHY III

Christopher J. Murphy III, Chairman of the Board
and Chief Executive Officer
Date: February 22, 2019

Table of Contents

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ CHRISTOPHER J. MURPHY III Christopher J. Murphy III	Chairman of the Board and Chief Executive Officer	February 22, 2019
/s/ JAMES R. SEITZ James R. Seitz	President	February 22, 2019
/s/ ANDREA G. SHORT Andrea G. Short	Treasurer, Chief Financial Officer and Principal Accounting Officer	February 22, 2019
/s/ JOHN B. GRIFFITH John B. Griffith	Secretary and General Counsel	February 22, 2019
/s/ MELODY BIRMINGHAM-BYRD Melody Birmingham-Byrd	Director	February 22, 2019
/s/ DANIEL B. FITZPATRICK Daniel B. Fitzpatrick	Director	February 22, 2019
/s/ LISA W. HERSHMAN Lisa W. Hershman	Director	February 22, 2019
/s/ NAJEEB A. KHAN Najeeb A. Khan	Director	February 22, 2019
/s/ VINOD M. KHILNANI Vinod M. Khilnani	Director	February 22, 2019
/s/ REX MARTIN Rex Martin	Director	February 22, 2019
/s/ CHRISTOPHER J. MURPHY IV Christopher J. Murphy IV	Director	February 22, 2019
/s/ TIMOTHY K. OZARK Timothy K. Ozark	Director	February 22, 2019
/s/ JOHN T. PHAIR John T. Phair	Director	February 22, 2019
/s/ MARK D. SCHWABERO Mark D. Schwabero	Director	February 22, 2019