NRG ENERGY, INC.
Form SC 13G/A
February 14, 2006

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

SCHEDULE 13G

Under the Securities Exchange Act of 1934
(Amendment No. 3)*

NRG ENERGY, INC.

(Name of Issuer)

Common Stock, $0.01 Par Value Per Share

(Title of Class of Securities)

629377508

(CUSIP Number)

February 14, 2006

(Date of Event which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

[ ] Rule 13d-1(b)
[X] Rule 13d-1(c)
[ ] Rule 13d-1(d)

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 629377508 13G Page 2 of 10 Pages

1	NAME OF REPORTING PERSON I.R.S. IDENTIFICATION NO. OF ABOVE PERSON S.A.C. Capital Advisors, LLC	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*	(a) [ ] (b) [X]
3	SEC USE ONLY	
4	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware	

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	5	SOLE VOTING POWER 0
	6	SHARED VOTING POWER 2,280,605* (see Item 4)
	7	SOLE DISPOSITIVE POWER 0
	8	SHARED DISPOSITIVE POWER 2,280,605* (see Item 4)

9	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 2,280,605* (see Item 4)
10	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES [ ]
11	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9) 2.8% (see Item 4)
12	TYPE OF REPORTING PERSON* OO

*SEE INSTRUCTION BEFORE FILLING OUT

1	NAME OF REPORTING PERSON I.R.S. IDENTIFICATION NO. OF ABOVE PERSON S.A.C. Capital Management, LLC	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*	(a) [ ] (b) [X]
3	SEC USE ONLY	
4	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware	

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	5	SOLE VOTING POWER 0
	6	SHARED VOTING POWER 2,280,605* (see Item 4)
	7	SOLE DISPOSITIVE POWER 0
	8	SHARED DISPOSITIVE POWER 2,280,605* (see Item 4)

9	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 2,280,605* (see Item 4)
10	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES [ ]
11	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9) 2.8% (see Item 4)
12	TYPE OF REPORTING PERSON* OO

*SEE INSTRUCTION BEFORE FILLING OUT

Page 3 of 10 Pages

CUSIP No. 629377508	13G	Page 4 of 10 Pages

1	NAME OF REPORTING PERSON

I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

CR Intrinsic Investors, LLC

2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP* (a) [ ] (b) [X]	
3	SEC USE ONLY	
4	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	5	SOLE VOTING POWER 0
	6	SHARED VOTING POWER 1,535,000+ (see Item 4)
	7	SOLE DISPOSITIVE POWER 0
	8	SHARED DISPOSITIVE POWER 1,535,000+ (see Item 4)
9	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 1,535,000+ (see Item 4)	
10	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES [ ]	
11	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9) 1.9% (see Item 4)	
12	TYPE OF REPORTING PERSON* OO	

*SEE INSTRUCTION BEFORE FILLING OUT

1 NAME OF REPORTING PERSON
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

	Steven A. Cohen	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP* (a) [ ] (b) [X]	
3	SEC USE ONLY	
4	CITIZENSHIP OR PLACE OF ORGANIZATION United States	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	5	SOLE VOTING POWER 0
	6	SHARED VOTING POWER 3,815,605*+ (see Item 4)
	7	SOLE DISPOSITIVE POWER 0
	8	SHARED DISPOSITIVE POWER 3,815,605*+ (see Item 4)
9	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 3,815,605*+ (see Item 4)	
10	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES [ ]	
11	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9) 4.7% (see Item 4)	
12	TYPE OF REPORTING PERSON* IN	

*SEE INSTRUCTION BEFORE FILLING OUT

Item 1(a) Name of Issuer:

NRG Energy, Inc.

Item 1(b) Address of Issuer's Principal Executive Offices:

211 Carnegie Center
Princeton, New Jersey 08540

Items 2(a) Name of Person Filing:

This statement is filed by: (i) S.A.C. Capital Advisors, LLC, ("SAC Capital Advisors") with respect to shares of common stock, $.01 par value per share ("Shares") beneficially owned by S.A.C. Capital Associates, LLC ("SAC Capital Associates"), S.A.C. Arbitrage Fund, LLC ("SAC Arbitrage"), S.A.C. MultiQuant Fund, LLC ("SAC MultiQuant") and S.A.C. Select Fund, LLC ("SAC Select"); (ii) S.A.C. Capital Management, LLC, ("SAC Capital Management") with respect to Shares beneficially owned by SAC Capital Associates, SAC Arbitrage, SAC MultiQuant and SAC Select; (iii) CR Intrinsic Investors, LLC ("CR Intrinsic Investors") with respect to Shares beneficially owned by CR Intrinsic Investments ("CR Intrinsic Investments"); and (iv) Steven A. Cohen with respect to Shares beneficially owned by SAC Capital Advisors, SAC Capital Management, SAC Capital Associates, SAC Arbitrage, SAC MultiQuant, SAC Select, CR Intrinsic Investors and CR Intrinsic Investments.

Item 2(b) Address of Principal Business Office:

The address of the principal business office of (i) SAC Capital Advisors, CR Intrinsic Investors and Mr. Cohen is 72 Cummings Point Road, Stamford, Connecticut 06902 and (ii) SAC Capital Management is 540 Madison Avenue, New York, New York 10022.

Item 2(c) Citizenship:

SAC Capital Advisors, SAC Capital Management and CR Intrinsic Investors are Delaware limited liability companies. Mr. Cohen is a United States citizen.

Item 2(d) Title of Class of Securities:

Common Stock, par value $0.01 per share

Page 6 of 10 Pages

Item 2(e) CUSIP Number:

629377508

Item 3 Not Applicable

Item 4 Ownership:

The percentages used herein are calculated based upon the Shares issued and outstanding as of November 3, 2005 as reported on the Issuer's quarterly report on Form 10-Q filed with the Securities and Exchange Commission by the Issuer for the quarterly period ended September 30, 2005, plus Shares issuable upon conversion of the Issuer's 4% Convertible Perpetual Preferred Stock held by SAC Arbitrage as described below.

As of the close of business on Fewbruary 13, 2006:

1. S.A.C. Capital Advisors, LLC
(a) Amount beneficially owned: 2,280,605*
(b) Percent of class: 2.8%
(c)(i) Sole power to vote or direct the vote: -0-
(ii) Shared power to vote or direct the vote: 2,280,605*
(iii) Sole power to dispose or direct the disposition: -0-
(iv) Shared power to dispose or direct the disposition: 2,280,605*

2. S.A.C. Capital Mnagement, LLC
(a) Amount beneficially owned: 2,280,605*
(b) Percent of class: 2.8%
(c)(i) Sole power to vote or direct the vote: -0-
(ii) Shared power to vote or direct the vote: 2,280,605*
(iii) Sole power to dispose or direct the disposition: -0-
(iv) Shared power to dispose or direct the disposition: 2,280,605*

3. CR Intrinsic Investors, LLC
(a) Amount beneficially owned: 1,535,000+
(b) Percent of class: 1.9%
(c)(i) Sole power to vote or direct the vote: -0-
(ii) Shared power to vote or direct the vote: 1,535,000+
(iii) Sole power to dispose or direct the disposition: -0-
(iv) Shared power to dispose or direct the disposition: 1,535,000+

4. Steven A. Cohen
(a) Amount beneficially owned: 3,815,605*+
(b) Percent of class: 4.7%
(c)(i) Sole power to vote or direct the vote: -0-
(ii) Shared power to vote or direct the vote: 3,815,605*+
(iii) Sole power to dispose or direct the disposition: -0-
(iv) Shared power to dispose or direct the disposition: 3,815,605*+

* The number of shares reported herein includes (i) 200,000 shares issuable upon conversion of 8000 shares of the Issuer's 4% Convertible Perpetual Preferred Stock held by SAC Arbitrage and (ii) 750,000 shares issuable upon exercise of options held by SAC Capital Associates.

+ The number of shares reported herein includes 1,400,000 shares issuable upon exercise of options held by CR Intrinsic Investments.

SAC Capital Advisors, SAC Capital Management, CR Intrinsic Investors and Mr. Cohen own directly no Shares. Pursuant to investment agreements, each of SAC Capital Advisors and SAC Capital Management share all investment and voting power with respect to the securities held by SAC Capital Associates, SAC Arbitrage and SAC MultiQuant. Pursuant to an investment management agreement, CR Intrinsic Investors has investment and voting power with respect to the securities held by CR Intrinsic Investments. Mr. Cohen controls each of SAC Capital Advisors and SAC Capital Management. CR Intrinsic Investments is a wholly owned subsidiary of SAC Capital Associates. By reason of the provisions of Rule 13d-3 of the Securities Exchange Act of 1934, as amended, each of (i) SAC Capital Advisors, SAC Capital Management and Mr. Cohen may be deemed to own beneficially 2,280,605 Shares (constituting approximately 2.8% of the Shares outstanding) and (ii) CR Intrinsic Investors and Mr. Cohen may be deemed to own beneficially 1,535,000 Shares (constituting approximately 1.9% of the Shares outstanding). Each of SAC Capital Advisors, SAC Capital Management, CR Intrinsic Investors and Mr. Cohen disclaim beneficial ownership of any of the securities covered by this statement, and SAC Capital Associates disclaims beneficial ownership of any of the securities held by CR Intrinsic Investments.

Item 5 Ownership of Five Percent or Less of a Class:

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following. [X]

Item 6 Ownership of More than Five Percent on Behalf of Another Person:

Not Applicable

Item 7 Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company:

Not Applicable

Item 8 Identification and Classification of Members of the Group:

Not Applicable

Item 9 Notice of Dissolution of Group:

Not Applicable

Item 10 Certification:

By signing below the signatory certifies that, to the best of his knowledge and belief, the securities referred to above were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: February 14, 2006

S.A.C. CAPITAL ADVISORS, LLC

By: /s/ Peter Nussbaum

Name: Peter Nussbaum
Title: Authorized Person

S.A.C. CAPITAL MANAGEMENT, LLC

By: /s/ Peter Nussbaum

Name: Peter Nussbaum
Title: Authorized Person

CR INTRINSIC INVESTORS, LLC

By: /s/ Peter Nussbaum

Name: Peter Nussbaum
Title: Authorized Person

STEVEN A. COHEN

By: /s/ Peter Nussbaum

Name: Peter Nussbaum
Title: Authorized Person

nt size="2" face="Times New Roman" style="font-size:10.0pt;">(28

)

Investment securities and other investment gains

(28

)

(28

)

Income before income taxes

Tax effect

11

11

Income tax expense

Net of tax

$

(17

)

$

(17

)

Net income

Note 12. Income Taxes

The total amount of unrecognized tax benefits that would affect the effective tax rate if recognized was $2.41 million at September 30, 2013 and $2.02 million at December 31, 2012. Interest and penalties were recognized through the income tax provision. For the nine months ended September 30, 2013 and 2012, the Company recognized approximately $0.11 million and $(0.06) million in interest, net of tax effect, and penalties, respectively. Interest and penalties of approximately $0.66 million and $0.55 million were accrued at September 30, 2013 and December 31, 2012, respectively.

Effective January 1, 2014, the Indiana Financial Institutions tax rate decreases from 8.5% to 8.0% and continues to decrease by 0.5% each of the next three years. As a result of the rate change, the Company decreased the carrying value of certain state deferred tax assets. The impact of this change was not material and was recorded in the financial statements during the second quarter of 2013.

Tax years that remain open and subject to audit include the federal 2010-2012 years and the Indiana 2009-2012 years. The Company does not anticipate a significant change in the amount of uncertain tax positions within the next 12 months.

Table of Contents

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.

- 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 September 30, 2013 and December 31, 2012, all mortgages held for sale were carried at fair value.

Table of Contents

The following table reflects 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 on September 30, 2013 and December 31, 2012:

(Dollars in thousands)	**Fair value carrying amount**	**Aggregate unpaid principal**	**Excess of fair value carrrying amount over (under) unpaid principal**
September 30, 2013			
Mortgages held for sale reported at fair value			
Total Loans	$ 7,157	$ 7,106	$ 51(1)
December 31, 2012			
Mortgages held for sale reported at fair value			
Total Loans	$ 10,879	$ 10,293	$ 586(1)

(1) The excess of fair value carrying amount over unpaid principal is included in mortgage banking income and includes changes in fair value at and subsequent to funding, 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.

Table of Contents

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.

- 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.

- 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 imbedded in these portfolios.

Table of Contents

The table below presents the balance of assets and liabilities at September 30, 2013 and December 31, 2012 measured at fair value on a recurring basis:

(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
September 30, 2013				
Assets:				
Investment securities available-for-sale:				
U.S. Treasury and Federal agencies securities	$ 19,693	$ 376,600	$	$ 396,293
U.S. States and political subdivisions securities		108,163	6,517	114,680
Mortgage-backed securities Federal agencies		284,360		284,360
Corporate debt securities		31,123		31,123
Foreign government and other securities		707		707
Total debt securities	19,693	800,953	6,517	827,163
Marketable equity securities	7,185			7,185
Total investment securities available-for-sale	26,878	800,953	6,517	834,348
Trading account securities	177			177
Mortgages held for sale		7,157		7,157
Accrued income and other assets (Interest rate swap agreements)		10,902		10,902
Total	$ 27,055	$ 819,012	$ 6,517	$ 852,584
Liabilities:				
Accrued expenses and other liabilities (Interest rate swap agreements)	$	$ 11,110	$	$ 11,110
Total	$	$ 11,110	$	$ 11,110
December 31, 2012				
Assets:				
Investment securities available-for-sale:				
U.S. Treasury and Federal agencies securities	$ 20,063	$ 402,190	$	$ 422,253
U.S. States and political subdivisions securities		97,736	7,701	105,437
Mortgage-backed securities Federal agencies		312,407		312,407
Corporate debt securities		31,248		31,248
Foreign government and other securities		3,726		3,726
Total debt securities	20,063	847,307	7,701	875,071
Marketable equity securities	5,693			5,693
Total investment securities available-for-sale	25,756	847,307	7,701	880,764
Trading account securities	146			146
Mortgages held for sale		10,879		10,879
Accrued income and other assets (Interest rate swap agreements)		16,126		16,126
Total	$ 25,902	$ 874,312	$ 7,701	$ 907,915
Liabilities:				
Accrued expenses and other liabilities (Interest rate swap agreements)	$	$ 16,444	$	$ 16,444
Total	$	$ 16,444	$	$ 16,444

Table of Contents

The changes in investment securities available-for-sale Level 3 assets measured at fair value on a recurring basis for the quarter ended September 30, 2013 and 2012 are summarized as follows:

(Dollars in thousands)		**U.S. States and political subdivisions securities**
Beginning balance July 1, 2013	$	5,452
Total gains or losses (realized/unrealized):		
Included in earnings		
Included in other comprehensive income		56
Purchases		1,500
Issuances		
Settlements		
Maturities		(491)
Transfers into Level 3		
Transfers out of Level 3		
Ending balance September 30, 2013	$	6,517
Beginning balance July 1, 2012	$	8,143
Total gains or losses (realized/unrealized):		
Included in earnings		
Included in other comprehensive income		72
Purchases		
Issuances		
Settlements		
Maturities		(474)
Transfers into Level 3		
Transfers out of Level 3		
Ending balance September 30, 2012	$	7,741

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 September 30, 2013 or 2012. No transfers between levels occurred during the nine months ended September 30, 2013. One transfer between levels occurred during the nine months ended September 30, 2012. No transfers between Level 1 and 2 occurred during the period ended September 30, 2013. A foreign government debt security was transferred from Level 3 to Level 2 as of March 31, 2012 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.

Table of Contents

The table below presents the valuation methodology and unobservable inputs for Level 3 assets and liabilities measured at fair value on a recurring basis at September 30, 2013 and December 31, 2012.

(Dollars in thousands)		Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs
September 30, 2013					
Investment securities available-for sale					
Adjustable rate securities	$	1,708	Discounted cash flows	Illiquidity adjustment	4.00% - 8.00%
				Term assumption (1)	5 yrs
				Coupon forecast assumption	0.37%
Direct placement municipal securities		4,809	Discounted cash flows	Credit spread assumption	1.16% - 1.66%
Total investment securities available-for-sale	$	6,517			
December 31, 2012					
Investment securities available-for sale					
Adjustable rate securities	$	3,364	Discounted cash flows	Illiquidity adjustment	4.00% - 8.00%
				Term assumption (1)	5 yrs
				Coupon forecast assumption	0.50% - 0.88%
Direct placement municipal securities		4,337	Discounted cash flows	Credit spread assumption	1.22% - 1.95%
Total investment securities available-for-sale	$	7,701			

(1) Term assumption is influenced by security call history

The sensitivity to changes in the unobservable inputs and their impact on the fair value measurement can be significant. The significant unobservable inputs for adjustable rate securities are illiquidity, term and coupon forecast assumptions. The illiquidity adjustment is negatively correlated to the fair value measure. An increase (decrease) in the determined illiquidity adjustment will lower (increase) the fair value measure. The term assumption is negatively correlated to the fair value measure. An increase (decrease) in the determined term adjustment will decrease (increase) the fair value measure. The coupon forecast is positively correlated to the fair value measure. An increase (decrease) in the determined coupon forecast will increase (decrease) the fair value measure. A permutation that includes a change in the coupon forecast with a change in either or both of the two variables will mitigate the significance of the change to the fair value measure. The significant unobservable input for direct placement municipal securities is the underlying market level used to determine the fair value measure. An increase (decrease) in the estimated yield level of the market will decrease (increase) the fair value measure of the securities.

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, 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 Committee 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

Table of Contents

the borrower, and the appropriateness of the unobservable inputs, generally discounts due to current market conditions and collection issues. The Committee 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 Credit Policy Committee.

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 and environmental 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 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 mortgage servicing rights (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.

Table of Contents

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 September 30, 2013: impaired loans - $0.00 million; partnership investments - $(0.07) million; mortgage servicing rights - $0.00 million; repossessions - $0.00 million, and other real estate - $0.10 million.

The table below presents the carrying value of assets at September 30, 2013 and December 31, 2012 measured at fair value on a non-recurring basis:

(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
September 30, 2013				
Impaired loans - collateral based	$	$	$ 7,608	$ 7,608
Accrued income and other assets (partnership investments)			2,017	2,017
Accrued income and other assets (mortgage servicing rights)			4,878	4,878
Accrued income and other assets (repossessions)			2,811	2,811
Accrued income and other assets (other real estate)			5,953	5,953
Total	$	$	$ 23,267	$ 23,267
December 31, 2012				
Impaired loans - collateral based	$	$	$ 2,027	$ 2,027
Accrued income and other assets (partnership investments)			2,032	2,032
Accrued income and other assets (mortgage servicing rights)			4,645	4,645
Accrued income and other assets (repossessions)			63	63
Accrued income and other assets (other real estate)			5,344	5,344
Total	$	$	$ 14,111	$ 14,111

Table of Contents

The table below presents the valuation methodology and unobservable inputs for Level 3 assets and liabilities measured at fair value on a non-recurring basis at September 30, 2013 and December 31, 2012.

(Dollars in thousands)	Carrying Value	Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs
September 30, 2013					
Impaired loans	$ 7,608	$ 7,608	Collateral based measurements including appraisals, trade publications, auction values	Discount for lack of marketability and current conditions	10% - 90%
Mortgage servicing rights	4,878	7,656	Discounted cash flows	Constant prepayment rate (CPR)	11.1% - 15.7%
				Discount rate	9.75% - 12.75%
Repossessions	2,811	2,957	Appraisals, trade publications and auction values	Discount for lack of marketability	0% - 3%
Other real estate	5,953	7,072	Appraisals	Discount for lack of marketability	0% - 74%
December 31, 2012					
Impaired loans	$ 2,027	$ 2,027	Collateral based measurements including appraisals, trade publications, auction values	Discount for lack of marketability and current conditions	10% - 90%
Mortgage servicing rights	4,645	5,760	Discounted cash flows	Constant prepayment rate (CPR)	14.1% - 23.2%
				Discount rate	8.5% - 11.5%
Repossessions	63	59	Appraisals, trade publications and auction values	Discount for lack of marketability	0% - 45%
Other real estate	5,344	6,550	Appraisals	Discount for lack of marketability	0% - 68%

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.

Table of Contents

The fair values of the Company s financial instruments as of September 30, 2013 and December 31, 2012 are summarized in the table below.

(Dollars in thousands)		**Carrying or Contract Value**		**Fair Value**		**Level 1**		**Level 2**		**Level 3**
September 30, 2013										
Assets:										
Cash and due from banks	$	90,090	$	90,090	$	90,090	$		$	
Federal funds sold and interest bearing deposits with other banks		1,676		1,676		1,676				
Investment securities, available-for-sale		834,348		834,348		26,878		800,953		6,517
Other investments and trading account securities		22,586		22,586		22,586				
Mortgages held for sale		7,157		7,157				7,157		
Loans and leases, net of reserve for loan and lease losses		3,383,611		3,408,703						3,408,703
Cash surrender value of life insurance policies		58,057		58,057		58,057				
Mortgage servicing rights		4,878		7,656						7,656
Interest rate swaps		10,902		10,902				10,902		
Liabilities:										
Deposits	$	3,679,416	$	3,686,218	$	2,636,029	$	1,050,189	$	
Short-term borrowings		221,442		221,442		152,714		68,728		
Long-term debt and mandatorily redeemable securities		58,440		57,837				57,837		
Subordinated notes		58,764		71,707				71,707		
Interest rate swaps		11,110		11,110				11,110		
Off-balance-sheet instruments *				166				166		
December 31, 2012										
Assets:										
Cash and due from banks	$	83,232	$	83,232	$	83,232	$		$	
Federal funds sold and interest bearing deposits with other banks		702		702		702				
Investment securities, available-for-sale		880,764		880,764		25,756		847,307		7,701
Other investments and trading account securities		22,755		22,755		22,755				
Mortgages held for sale		10,879		10,879				10,879		
Loans and leases, net of reserve for loan and lease losses		3,244,242		3,287,976						3,287,976
Cash surrender value of life insurance policies		56,572		56,572		56,572				
Mortgage servicing rights		4,645		5,760						5,760
Interest rate swaps		16,126		16,126				16,126		
Liabilities:										
Deposits	$	3,624,347	$	3,641,280	$	2,556,122	$	1,085,158	$	
Short-term borrowings		169,188		169,188		161,138		8,050		
Long-term debt and mandatorily redeemable securities		71,021		71,557				71,557		
Subordinated notes		58,764		72,914				72,914		
Interest rate swaps		16,444		16,444				16,444		
Off-balance-sheet instruments *				188				188		

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

Table of Contents

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.

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 based on quoted market prices, where available. If quoted market prices are not available, 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 1st Source 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.

Table of Contents

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.

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 September 30, 2013, as compared to December 31, 2012, and the results of operations for the three and nine months ended September 30, 2013 and 2012. 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 2012 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, continue, remain, estimate, anticipa indicate, would, may and other similar expressions are intended to 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 U.S. generally accepted accounting principles; 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 2012, 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 September 30, 2013 were $4.65 billion, an increase of $99.27 million or 2.18% from December 31, 2012. Total loans and leases were $3.47 billion, an increase of $140.57 million or 4.22% from December 31, 2012. Total investment securities, available for sale were $834.35 million which represented a decrease of $46.42 million or 5.27% and total deposits were $3.68 billion, an increase of $55.07 million or 1.52% over the comparable figures at the end of 2012. Short-term borrowings were $221.44 million, an increase of $52.25 million or 30.89% from December 31, 2012.

Nonperforming assets at September 30, 2013 were $40.33 million, which was a decrease of $1.94 million or 4.57% from the $42.27 million reported at December 31, 2012. At September 30, 2013 and December 31, 2012, nonperforming assets were 1.14% and 1.25%, respectively of net loans and leases.

Table of Contents

Accrued income and other assets were as follows:

(Dollars in thousands)		September 30, 2013		December 31, 2012
Accrued income and other assets:				
Bank owned life insurance cash surrender value	$	58,057	$	56,572
Accrued interest receivable		12,913		12,698
Mortgage servicing assets		4,878		4,645
Other real estate		5,002		4,311
Former bank premises held for sale		951		1,034
Repossessions		2,811		63
All other assets		32,626		44,105
Total accrued income and other assets	$	117,238	$	123,428

CAPITAL

As of September 30, 2013, total shareholders equity was $578.23 million, up $19.57 million or 3.50% from the $558.66 million at December 31, 2012. In addition to net income of $41.24 million, other significant changes in shareholders equity during the first nine months of 2013 included $12.52 million of dividends paid. The accumulated other comprehensive income/(loss) component of shareholders equity totaled $9.01 million at September 30, 2013, compared to $19.54 million at December 31, 2012. The decrease in accumulated other comprehensive income/(loss) during 2013 was the result of changes in unrealized gain/(loss) on securities in the available-for-sale portfolio. Our equity-to-assets ratio was 12.44% as of September 30, 2013, compared to 12.28% at December 31, 2012. Book value per common share rose to $23.77 at September 30, 2013, from $23.04 at December 31, 2012.

We declared and paid dividends per common share of $0.17 during the third quarter of 2013. The trailing four quarters dividend payout ratio, representing dividends per common share divided by diluted earnings per common share, was 31.48%. 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 September 30, 2013, are presented in the table below:

		Actual			Minimum Capital Adequacy			Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)		Amount	Ratio		Amount	Ratio		Amount	Ratio
Total Capital (to Risk-Weighted Assets):									
1st Source Corporation	$	588,627	15.89%	$	296,294	8.00%	$	370,368	10.00%
1st Source Bank		558,869	15.12		295,741	8.00		369,676	10.00
Tier 1 Capital (to Risk-Weighted Assets):									

1st Source Corporation	539,572	14.57	148,147	4.00	222,221	6.00
1st Source Bank	511,491	13.84	147,871	4.00	221,806	6.00
Tier 1 Capital (to Average Assets):						
1st Source Corporation	539,572	11.91	181,151	4.00	226,439	5.00
1st Source Bank	511,491	11.31	180,875	4.00	226,093	5.00

34

Table of Contents

In July of 2013, the Federal Reserve and other federal banking agencies issued the final Basel III rule to help ensure that banks maintain strong capital positions. Under the final rule, minimum requirements increase for both the quantity and quality of capital held by banking organizations. The rule includes a new minimum ratio of common equity tier 1 capital to risk-weighted assets of 4.5% and a common equity tier 1 capital conservation buffer of 2.5% of risk-weighted assets that apply to all supervised financial institutions. The rule also raises the minimum ratio of tier 1 capital to risk-weighted assets from 4.0% to 6.0% and includes a minimum leverage ratio of 4.0% for all banking organizations. These new standards will become effective for us on January 1, 2015.

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 September 30, 2013 we had $37.50 million outstanding and could borrow approximately $227.50 million for a short time from these banks on a collective basis. As of September 30, 2013, we had $92.65 million outstanding in FHLB advances and could borrow an additional $103.04 million. We also had $344.47 million available to borrow from the FRB with no amounts outstanding as of September 30, 2013.

Our loan to asset ratio was 74.58% at September 30, 2013 compared to 73.12% at December 31, 2012 and 72.82% at September 30, 2012. Cash and cash equivalents totaled $91.77 million at September 30, 2013 compared to $83.93 million at December 31, 2012 and $71.81 million at September 30, 2012. At September 30, 2013, the consolidated statement of financial condition was rate sensitive by $178.35 million more assets than liabilities scheduled to reprice within one year, or approximately 1.09%. 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 $613 million.

RESULTS OF OPERATIONS

Net income for the three and nine month periods ended September 30, 2013 was $14.90 million and $41.24 million, compared to $13.01 million and $37.29 million for the same periods in 2012. Diluted net income per common share was $0.60 and $1.67 for the three and nine month periods ended September 30, 2013, compared to $0.53 and $1.51 for the same periods in 2012. Return on average common shareholders equity was 9.65% for the nine months ended September 30, 2013, compared to 9.21% in 2012. The return on total average assets was 1.20% for the nine months ended September 30, 2013, compared to 1.12% in 2012.

The increase in net income for the nine months ended September 30, 2013, over the first nine months of 2012, was primarily the result of an increase in net interest income and a decrease in provision for loan and lease losses. Details of the changes in the various components of net income are discussed further below.

Table of Contents

NET INTEREST INCOME

The taxable equivalent net interest income for the three months ended September 30, 2013 was $41.60 million, an increase of 8.29% over the same period in 2012. The net interest margin on a fully taxable equivalent basis was 3.79% for the three months ended September 30, 2013, compared to 3.63% for the three months ended September 30, 2012. The taxable equivalent net interest income for the nine months ended September 30, 2013 was $119.15 million, an increase of 3.75% over 2012, resulting in a net yield of 3.69% compared to a net yield of 3.70% for the same period in 2012.

During the three and nine month periods ended September 30, 2013, average earning assets increased $144.60 million or 3.44% and $168.24 million or 4.06% respectively, over the comparable periods in 2012. Average interest-bearing liabilities increased $51.72 million or 1.59% and $57.47 million or 1.78% respectively, for the three and nine month periods ended September 30, 2013 over the comparable periods one year ago. The yield on average earning assets decreased 4 basis points to 4.32% for the third quarter of 2013 from 4.36% for the third quarter of 2012. The yield on average earning assets for the nine month period ended September 30, 2013 decreased 21 basis points to 4.24% from 4.45% for the nine month period ended September 30, 2012. 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 24 basis points to 0.70% for the third quarter 2013 from 0.94% for the third quarter 2012. Total cost of average interest-bearing liabilities decreased 25 basis points to 0.72% for the nine months ended September 30, 2013, from 0.97% for the nine months ended September 30, 2012. The result to the net interest margin, or the ratio of net interest income to average earning assets, was an increase of 16 basis points and a decrease of 1 basis point, respectively for the three and nine month periods ended September 30, 2013 from September 30, 2012.

The largest contributor to the decrease in the yield on average earning assets for the three and nine months ended September 30, 2013, compared to the three and nine months ended September 30, 2012, was a reduction in yields on net loans and leases of 10 basis points and 30 basis points, respectively. The yields on net loans and leases would have seen further decreases of 18 basis points and 6 basis points for the three and nine month periods ended September 30, 2013, respectively, were it not for the positive impact of interest recoveries. Average net loans and leases increased $215.64 million or 6.60% for the third quarter of 2013 from the third quarter of 2012 and $226.23 million or 7.09% for the nine months ended September 30, 2013 compared to the same period in 2012. Total average investment securities decreased $29.52 million or 3.45% for the third quarter and decreased $34.17 million or 3.90% for the nine month period over one year ago. Tax equivalent yield on investment securities decreased 13 basis points for the third quarter 2013. Average mortgages held for sale decreased $14.49 million or 64.49% and $8.69 million or 51.07% respectively, for the three and nine month periods ended September 30, 2013, over the comparable periods 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, decreased $27.03 million or 44.15% and $15.13 million or 24.10% respectively, for the three and nine month periods ended September 30, 2013, over the comparable periods a year ago.

Average interest-bearing deposits increased $44.07 million or 1.49% and $66.84 million or 2.27% respectively, for the third quarter of 2013 and the first nine months of 2013 over the same periods in 2012. The effective rate paid on average interest-bearing deposits decreased 19 basis points to 0.54% for the third quarter 2013 compared to 0.73% for the third quarter 2012. The effective rate paid on average interest-bearing deposits decreased 18 basis points to 0.58% for the first nine months of 2013 compared to 0.76% for the first nine months of 2012. The decline in the average cost of interest-bearing deposits during the third quarter of 2013 and the first nine months of 2013 as compared to the third quarter and first nine months of 2012 was primarily the result of interest rate re-pricing on maturing certificates of deposit and a change in deposit mix.

Table of Contents

Average short-term borrowings increased $46.11 million or 32.95% and increased $8.33 million or 5.94%, respectively for the third quarter of 2013 and the first nine months of 2013 compared to the same periods in 2012 in order to fund loan growth. Interest paid on short-term borrowings increased 5 basis points for the third quarter and was flat for the first nine months of 2013. Average subordinated notes decreased $30.93 million for the third quarter of 2013 and the first nine months of 2013 while the effective rate paid decreased 19 basis points and 16 basis points, respectively due to the redemption of trust preferred securities in December 2012. Average long-term debt decreased $7.54 million or 11.46% during the third quarter of 2013 as compared to the third quarter of 2012 and increased $13.22 million or 25.87% during the first nine months of 2013 as compared to the first nine months of 2012. The decrease in long-term borrowings during the third quarter of 2013 as compared to the third quarter of 2012 was the result of decreased borrowings with the Federal Home Loan Bank (FHLB). The increase in long-term borrowings for the nine months ended September 30, 2013 compared to the same period a year ago was mainly the result of higher borrowings with the FHLB. Interest paid on long-term borrowings increased 58 basis points for the third quarter of 2013 compared to the third quarter of 2012 due to higher rates on mandatorily redeemable securities, offset by lower effective rates on FHLB borrowings. Interest paid on long-term borrowings decreased 93 basis points for the first nine months of 2013 compared to the first nine months of 2012 due to lower effective rates on FHLB borrowings.

The following table provides an analysis of net interest income and illustrates the interest 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

(Dollars in thousands)

	Three Months Ended September 30,						Nine Months Ended September 30,					
	2013			2012			2013			2012		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
ASSETS:												
Investment securities:												
Taxable	$ 717,081	$ 3,581	1.98%	$ 750,003	$ 3,913	2.08%	$ 736,192	$ 10,774	1.96%	$ 768,994	$ 12,574	2.18%
Tax exempt	108,395	1,126	4.12%	104,991	1,225	4.64%	105,825	3,385	4.28%	107,189	3,739	4.66%
Mortgages - held for sale	7,979	87	4.33%	22,470	193	3.42%	8,329	235	3.77%	17,022	451	3.54%
Net loans and leases	3,483,942	42,389	4.83%	3,268,304	40,531	4.93%	3,415,752	121,714	4.76%	3,189,526	120,733	5.06%
Other investments	34,186	229	2.66%	61,214	231	1.50%	47,644	712	2.00%	62,769	688	1.46%
Total Earning Assets	4,351,583	47,412	4.32%	4,206,982	46,093	4.36%	4,313,742	136,820	4.24%	4,145,500	138,185	4.45%
Cash and due from banks	58,122			58,226			58,648			60,048		
Reserve for loan and lease losses	(86,570)			(84,120)			(85,204)			(83,221)		
Other assets	302,822			318,337			306,846			325,126		
Total	$ 4,625,957			$ 4,499,425			$ 4,594,032			$ 4,447,453		
LIABILITIES AND SHAREHOLDERS EQUITY:												

Interest-bearing deposits	$ 2,992,091	$ 4,089	0.54%	$ 2,948,022	$ 5,419	0.73%	$ 3,016,570	$ 13,043	0.58%	$ 2,949,726	$ 16,868	0.76%
Short-term borrowings	186,064	72	0.15%	139,951	36	0.10%	148,626	149	0.13%	140,294	136	0.13%
Subordinated notes	58,764	1,055	7.12%	89,692	1,647	7.31%	58,764	3,165	7.20%	89,692	4,942	7.36%
Long-term debt and mandatorily redeemable securities	58,244	592	4.03%	65,780	571	3.45%	64,307	1,315	2.73%	51,090	1,399	3.66%
Total Interest-Bearing Liabilities	3,295,163	5,808	0.70%	3,243,445	7,673	0.94%	3,288,267	17,672	0.72%	3,230,802	23,345	0.97%
Noninterest-bearing deposits	705,778			635,152			677,269			603,805		
Other liabilities	50,427			70,865			56,804			71,806		
Shareholders equity	574,589			549,963			571,692			541,040		
Total	$ 4,625,957			$ 4,499,425			$ 4,594,032			$ 4,447,453		
Net Interest Income		$ 41,604			$ 38,420			$ 119,148			$ 114,840	
Net Yield on Earning Assets on a Taxable Equivalent Basis			3.79%			3.63%			3.69%			3.70%

Table of Contents

PROVISION AND RESERVE FOR LOAN AND LEASE LOSSES

The provision for loan and lease losses for the three and nine month period ended September 30, 2013 was $(0.42) million and $1.63 million respectively, compared to a provision for loan and lease losses in the three and nine month periods ended September 30, 2012 of $0.65 million and $4.96 million respectively. Net charge-offs of $0.76 million were recorded for the third quarter 2013, compared to net charge-offs of $0.45 million for the same quarter a year ago. Year-to-date net charge-offs of $0.44 million have been recorded in 2013, compared to net charge-offs $3.10 million through September 30, 2012.

On September 30, 2013, 30 day and over loan and lease delinquencies were 0.26% compared to 0.54% on September 30, 2012. The reserve for loan and lease losses as a percentage of loans and leases outstanding at the end of the period was 2.44% as compared to 2.55% one year ago. A summary of loan and lease loss experience during the three and nine months ended September 30, 2013 and 2012 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 an allowance 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 and lease and the recorded investment in the loan or lease exceeds its fair value. A summary of impaired loans as of September 30, 2013 and December 31, 2012 is reflected in Note 4 of the Consolidated Financial Statements.

NONPERFORMING ASSETS

Nonperforming assets were as follows:

(Dollars in thousands)		**September 30, 2013**		**December 31, 2012**		**September 30, 2012**
Loans and leases past due 90 days or more	$	245	$	442	$	477
Nonaccrual loans and leases		31,325		36,417		42,756
Other real estate		5,002		4,311		4,842
Former bank premises held for sale		951		1,034		1,101
Repossessions		2,811		63		1,248
Equipment owned under operating leases						32
Total nonperforming assets	$	40,334	$	42,267	$	50,456

Nonperforming assets as a percentage of total loans and leases were 1.14% at September 30, 2013, 1.25% at December 31, 2012, and 1.51% at September 30, 2012. Nonperforming assets totaled $40.33 million at September 30, 2013, a decrease of 4.57% from the $42.27 million reported at December 31, 2012, and a 20.06% decrease from the $50.46 million reported at September 30, 2012. The decrease during the first nine months of 2013 compared to the same period in 2012 was primarily related to a decrease in nonaccrual loans and leases as the economy slowly improves.

The decrease in nonaccrual loans and leases at September 30, 2013 from December 31, 2012 and the decrease in nonaccrual loans and leases at September 30, 2013 from September 30, 2012 occurred across almost all loan types. A summary of nonaccrual loans and leases and past due aging for the period ended September 30, 2013 and December 31, 2012 is located in Note 4 of the Consolidated Financial Statements.

Table of Contents

As of September 30, 2013, the industry with the largest dollar exposure was with borrowers whose primary source of income was derived from commercial real estate. These impaired loans totaled approximately $11.66 million which were comprised of $10.69 million secured by commercial real estate and included in loans secured by real estate and $0.97 million secured by aircraft and included in aircraft financing. We have limited exposure to commercial real estate. However, our borrowers with commercial real estate exposure have suffered in this economy. Furthermore, aircraft values for some models declined from 2010 to 2012, increasing the risk in aircraft secured transactions; however, values appear to have stabilized in 2013.

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 increased slightly over the past year due to current foreclosures outpacing sales of existing properties.

Repossessions consisted mainly of aircraft financing at September 30, 2013. At the time of repossession, the recorded amount of the loan or lease is written down, if necessary, to the estimated value of the equipment or vehicle by a charge to the reserve for loan and lease losses, unless the equipment is in the process of immediate sale. Any subsequent write-downs are included in noninterest expense.

A summary of other real estate and repossessions is shown in the table below:

(Dollars in thousands)		**September 30, 2013**		**December 31, 2012**		**September 30, 2012**
Commercial and agricultural loans	$		$		$	
Auto, light truck and environmental equipment		162		52		79
Medium and heavy duty truck						
Aircraft financing		2,632				1,165
Construction equipment financing						
Commercial real estate		3,589		3,362		3,589
Residential real estate		1,060		545		1,253
Consumer loans		370		415		4
Total	$	7,813	$	4,374	$	6,090

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 $268.74 million and $271.41 million as of September 30, 2013 and December 31, 2012, respectively. Foreign loans and leases are in aircraft financing. Loan and lease outstandings to borrowers in Brazil and Mexico were $153.50 million and $58.46 million as of September 30, 2013, respectively, compared to $169.42 million and $55.12 million as of December 31, 2012, respectively. Outstanding balances to borrowers in other countries were insignificant.

Table of Contents

NONINTEREST INCOME

Noninterest income for the three month period ended September 30, 2013 and 2012 was $20.16 million and $20.31 million, respectively. Noninterest income for the nine month period ended September 30, 2013 and 2012 was $59.23 million and $60.62 million, respectively. Details of noninterest income follow:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	**2013**	**2012**	**2013**	**2012**
Noninterest income:				
Trust fees	$ 5,260	$ 4,055	$ 13,800	$ 12,407
Service charges on deposit accounts	2,364	2,688	6,928	7,747
Debit card income	2,343	2,020	6,752	6,281
Mortgage banking income	1,103	2,020	4,667	5,464
Insurance commissions	1,292	1,483	4,131	4,051
Equipment rental income	4,000	4,604	12,098	14,620
Investment securities and other investment gains	258	89	469	492
Other income	3,538	3,346	10,382	9,556
Total noninterest income	$ 20,158	$ 20,305	$ 59,227	$ 60,618

Noninterest income decreased $0.15 million or 0.72% for the three months ended September 30, 2013 as compared to the same period in 2012. Noninterest income decreased $1.39 million or 2.29% for the nine months ended September 30, 2013 compared to the same period one year ago. Investment securities and other investments gains increased slightly during the third quarter of 2013 over the same period in 2012, while decreasing slightly during the first nine months of 2013 versus the first nine months of 2012.

Trust fees increased $1.21 million or 29.72% and $1.39 million or 11.23% for the three and nine months ended September 30, 2013 over the same periods a year ago. The increase in trust fees was primarily the result of an increase in market values of investments held in the trust accounts of clients.

Service charges on deposit accounts decreased $0.32 million or 12.05% and $0.82 million or 10.57% for the three and nine months ended September 30, 2013, respectively over the comparable periods one year ago. The decrease in service charges on deposit accounts reflects a lower volume of nonsufficient fund transactions.

Debit card income increased $0.32 million or 15.99% and $0.47 million or 7.50% in the three and nine months ended September 30, 2013 over the same periods a year ago. The increase in debit card income was the result of increased transaction fees coupled with an increase in amount of debit card transactions in 2013.

Mortgage banking income decreased $0.92 million or 45.40% in the third quarter of 2013 as compared to the third quarter of 2012. Mortgage banking income decreased $0.80 million or 14.59% during the first nine months of 2013 versus the first nine months of 2012. This variance was caused by decreased gains on loan sales due to lower production volumes offset by lower mortgage servicing rights amortization expense in

2013.

Insurance commissions decreased $0.19 million or 12.88% in the three months ended September 30, 2013 over the same period a year ago. The decrease related to lower premium and agency fees. Insurance commissions remained flat for the nine months ended September 30, 2013 versus the first nine months in 2012.

Equipment rental income declined $0.60 million or 13.12% in the third quarter of 2013 compared to the third quarter 2012. Equipment rental income declined $2.52 million or 17.25% for year-to-date 2013 compared to the same period in 2012. The average equipment rental portfolio decreased 19.37% in 2013 over the same period in 2012 resulting in lower rental income. In addition, new leases are at lower rates due to current market conditions and increased competition.

Table of Contents

Other income increased $0.19 million or 5.74% and $0.83 million or 8.64% for the three and nine months ended September 30, 2013, respectively as compared to the same periods in 2012 primarily due to higher mutual fund income and dividend income.

NONINTEREST EXPENSE

Noninterest expense for the three month period ended September 30, 2013 and 2012 was $38.43 million and $37.19 million, respectively. Noninterest expense for the nine month period ended September 30, 2013 and 2012 was $110.72 million and $111.82 million, respectively. Details of noninterest expense follow:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	**2013**	**2012**	**2013**	**2012**
Noninterest expense:				
Salaries and employee benefits	$ 20,441	$ 20,982	$ 59,553	$ 61,668
Net occupancy expense	2,126	1,652	6,480	5,660
Furniture and equipment expense	4,477	3,817	12,285	11,155
Depreciation - leased equipment	3,246	3,795	9,745	11,909
Professional fees	1,178	1,385	3,843	4,232
Supplies and communication	1,330	1,387	4,365	4,165
FDIC and other insurance	874	913	2,679	2,716
Business development and marketing expense	1,306	1,008	3,011	2,925
Loan and lease collection and repossession expense	1,530	1,866	3,382	4,346
Other expense	1,922	388	5,381	3,043
Total noninterest expense	$ 38,430	$ 37,193	$ 110,724	$ 111,819

Noninterest expense increased $1.24 million or 3.33% for the third quarter and decreased $1.10 million or 0.98% for year-to-date 2013 as compared to the same periods in 2012. FDIC and other insurance expense decreased slightly in 2013 over the same periods in 2012. Supplies and communication expense decreased during the third quarter of 2013 over the same period in 2012 while slightly increasing for year-to-date 2013 as compared to the same period in 2012.

Salaries and employee benefits decreased $0.54 million or 2.58% and $2.12 million or 3.43% in the three and nine months ended September 30, 2013, respectively versus the three and nine months ended September 30, 2012. Lower base salary expense was primarily due to fewer full time equivalent employees offset by annual performance raises. Loan producer commissions were lower due to decreased residential mortgage loan volumes.

Net occupancy expense was higher by $0.47 million or 28.69% for the third quarter of 2013 and $0.82 million or 14.49% for year-to-date 2013 respectively, compared to the same periods one year ago. The increase was primarily a result of higher real estate taxes, depreciation and repairs.

Furniture and equipment expense increased $0.66 million or 17.29% and $1.13 million or 10.13% for the third quarter and year-to-date 2013 compared to the same periods in 2012. Furniture and equipment expense was higher mainly due to increased equipment depreciation, computer processing charges and software maintenance costs.

During the third quarter and first nine months of 2013, depreciation on leased equipment decreased $0.55 million or 14.47% and $2.16 million or 18.17%, respectively in conjunction with the decrease in equipment rental income as compared to the same periods one year ago.

Table of Contents

Professional fees decreased $0.21 million or 14.95% and $0.39 million or 9.19% for the three and nine month periods ended September 30, 2013 respectively, as compared to the three and nine month periods ended September 30, 2012. The decrease in professional fees in 2013 was primarily the result of reduced utilization of consulting services.

Business development and marketing expense increased $0.30 million or 29.56% for the three months ended September 30, 2013 versus the three months ended September 30, 2012 and was flat for the nine months ended September 30, 2013 versus the nine months ended September 30, 2012. The third quarter increase was primarily due to higher charitable contributions and institutional marketing.

Loan and lease collection and repossession expense decreased $0.34 million or 18.01% for the three months ended September 30, 2013 compared to the same period in 2012 primarily due to a reduction in average repossessions outstanding and lower repurchased mortgage loan losses in 2013 compared to 2012. Loan and lease collection and repossession expense decreased $0.96 million or 22.18% in the nine month period ended September 30, 2013 compared to the same period a year ago mainly due to a reduction in average repossessions outstanding offset by higher repurchased mortgage loan losses in 2013 compared to 2012.

Other expenses increased $1.53 million or 395.36% and $2.34 million or 76.83% in the three and nine month periods ended September 30, 2013, respectively as compared to the same periods in 2012 primarily related to a gain on the sale of the corporate headquarters parking garage that occurred during the third quarter of 2012 in addition to a previously reported trustee matter during 2013.

INCOME TAXES

The provision for income taxes for the three and nine month periods ended September 30, 2013 was $8.41 million and $23.41 million, respectively compared to $7.36 million and $19.82 million for the same periods in 2012. The effective tax rates were 36.08% and 36.15% for the third quarter ended September 30, 2013 and 2012, respectively and 36.21% and 34.71% for the nine months ended September 30, 2013 and 2012, respectively. The effective tax rates are higher in 2013 compared to 2012 due to the impact of state refunds for 2009 received in January of 2012.

Effective January 1, 2014, the Indiana Financial Institutions tax rate decreases from 8.5% to 8.0% and continues to decrease by 0.5% each of the next three years. As a result of the rate change, we decreased the carrying value of certain state deferred tax assets. The impact of this change was not material and was recorded in the financial statements during the second quarter of 2013.

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, 2012. For information regarding our market risk, refer to 1st Source s Annual Report on Form 10-K for the year ended December 31, 2012.

Table of Contents

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 September 30, 2013, 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 third fiscal quarter of 2013 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, 2012. For information regarding our risk factors, refer to 1st Source s Annual Report on Form 10-K for the year ended December 31, 2012.

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
July 01 - 31, 2013		$		942,963
Aug 01 - 31, 2013	22,334	26.16	22,334	920,629
Sept 01 - 30, 2013	40,470	26.28	40,470	880,159

* 1st Source maintains a stock repurchase plan that was authorized by the Board of Directors on April 26, 2007. Under the terms of the plan, 1st Source may repurchase up to 2,000,000 shares of its common stock when favorable conditions exist on the open market or through private transactions at various prices from time to time. Since the inception of the plan, 1st Source has repurchased a total of 1,119,841 shares.

Table of Contents

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

Table of Contents

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	October 24, 2013	/s/ CHRISTOPHER J. MURPHY III Christopher J. Murphy III Chairman of the Board, President and CEO
DATE	October 24, 2013	/s/ ANDREA G. SHORT Andrea G. Short Treasurer and Chief Financial Officer Principal Accounting Officer