

4TH QUARTER 2009

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Christopher J. Murphy III
Chairman of the Board
Chief Executive Officer

TO OUR SHAREHOLDERS:

We are pleased our performance is better than most in our industry, but it still has been a challenging year. Our earnings were adequate in this environment but not at all what we would like to achieve. We were proactive throughout the year in working with our clients through difficult situations and in recognizing credit problems as they occurred and we continued to increase our loan and lease loss reserves while taking substantial charge-offs. As always, we will continue to work with clients helping them deal with the challenges of this economy. We have always believed in providing straight talk and sound advice and keeping our client's best interests in mind and this has led to the development of some excellent new relationships.

As you may know, 1st Source is based in the heart of the Midwest, an area of manufacturing and durable goods production impacted strongly by the economic downturn. Unemployment remains high and our clients are affected. Our nonperforming assets have slowly climbed to 3.15 percent of total loans and leases, although net charge-offs to average loans and leases remain at a manageable 0.72 percent for the year. While our overall client counts increased, our loan outstandings decreased due to lower client demand for loans. Even with the slower economy, we had loan origination volume of \$478.02 million in the fourth quarter 2009 compared to \$500.87 million in the fourth quarter 2008. For the full year of 2009, our loan origination volume was \$1.86 billion compared to \$2.27 billion for 2008 reflecting the change in the growth rates of the local economy. Our capital ratios remain strong – even without the TARP funds, we exceed the regulatory “well capitalized” minimums. Our overall expenses are down and we continue to provide clients with credit.

1st Source reported fourth quarter net income of \$6.22 million, compared to \$12.32 million in the fourth quarter of 2008. For the year, net income was \$25.49 million versus \$33.39 million reported in 2008. The previous year's fourth quarter and annual net income results were positively impacted by the sale of certain assets of 1st Source Corporation Investment Advisors to Wasatch Advisors, Inc. which resulted in an \$11.49 million pre-tax (after-tax \$7.14 million) gain.

Diluted net income per common share for the fourth quarter of 2009 was \$0.19 compared to the \$0.50 per common share reported in the fourth quarter of 2008. Diluted net income per common share for 2009 was \$0.79 versus the \$1.37 per common share for 2008. Diluted net income per common share was reduced by \$0.07 for the fourth quarter of 2009 and \$0.26 for the year ending December 31, 2009, due to the preferred stock dividends and the accretion of the discount on the preferred stock issued to the U.S. Government under the TARP Program. The preferred stock was issued in January 2009 and therefore did not impact the three or twelve month periods ending December 31, 2008.

At the January 2010 meeting, the Board of Directors approved a fourth quarter cash dividend of \$0.15 per common share, up 7.14 percent over the dividend declared in the same period a year earlier. The cash dividend is payable on February 16, 2010 to shareholders of record on February 8, 2010.

Total assets at the end of 2009 were \$4.54 billion, up 1.75 percent compared to the same period last year. At December 31, 2009, total loans and leases were \$3.09 billion, down 6.22 percent and total deposits \$3.65 billion, up 3.92 percent from year end 2008.

Throughout 1st Source, we remain focused on keeping a sharp eye on the credit situation, watching our expenses carefully, and most importantly, helping our clients with excellent personal service and sound advice for these unusual times.



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(Unaudited — Dollars in thousands except per share data)



	3 Months Ended December 31		12 Months Ended December 31	
	2009	2008	2009	2008
END OF PERIOD BALANCES				
Assets			\$ 4,542,100	\$ 4,464,174
Loans and leases			3,093,150	3,298,212
Deposits			3,652,464	3,514,542
Reserve for loan and lease losses			88,236	79,776
Intangible assets			90,222	91,691
Common shareholders' equity			465,390	453,664
Total shareholders' equity			570,320	453,664

AVERAGE BALANCES

Assets	\$ 4,498,879	\$ 4,449,887	\$ 4,505,852	\$ 4,400,523
Earning assets	4,178,782	4,132,596	4,199,512	4,068,614
Investments	884,068	679,595	835,025	713,812
Loans and leases	3,067,062	3,298,351	3,154,820	3,263,276
Deposits	3,580,674	3,388,553	3,573,648	3,374,270
Interest bearing liabilities	3,407,214	3,557,059	3,441,922	3,509,112
Common shareholders' equity	471,535	447,085	468,405	444,148
Total shareholders' equity	576,257	447,085	566,464	444,148

INCOME STATEMENT DATA

Net interest income	\$ 33,531	\$ 33,342	\$ 128,212	\$ 132,160
Net interest income - FTE	34,487	34,239	131,999	135,747
Provision for loan and lease losses	8,360	7,045	31,101	16,648
Noninterest income	22,020	30,229	85,530	84,003
Noninterest expense	38,564	38,501	151,123	153,114
Net income	6,223	12,315	25,490	33,386
Net income available to common shareholders	4,517	12,315	19,074	33,386

PER SHARE DATA

Basic net income per common share	\$ 0.19	\$ 0.51	\$ 0.79	\$ 1.38
Diluted net income per common share	0.19	0.50	0.79	1.37
Common cash dividends declared	0.16	0.16	0.59	0.58
Book value per common share	19.30	18.82	19.30	18.82
Tangible book value per common share	15.56	15.01	15.56	15.01
Market value - High	16.60	25.56	23.92	30.00
Market value - Low	13.84	12.61	13.84	12.61
Basic weighted average common shares outstanding	24,126,225	24,110,930	24,157,179	24,105,753
Diluted weighted average common shares outstanding	24,130,517	24,390,637	24,163,689	24,387,732

KEY RATIOS

Return on average assets	0.55%	1.10%	0.57%	0.76%
Return on average common shareholders' equity	3.80	10.96	4.07	7.52
Average common shareholders' equity to average assets	10.48	10.05	10.40	10.09
End of period tangible common equity to tangible assets	8.43	8.28	8.43	8.28
Risk-based capital - Tier 1	16.43	11.97	16.43	11.97
Risk-based capital - Total	17.72	13.26	17.72	13.26
Net interest margin	3.27	3.30	3.14	3.34
Efficiency: expense to revenue	67.61	68.65	67.59	67.23
Net charge-offs to average loans and leases	0.73	0.35	0.72	0.11
Loan and lease loss reserve to loans and leases	2.85	2.42	2.85	2.42
Nonperforming assets to loans and leases	3.15	1.30	3.15	1.30

ASSET QUALITY

Loans and leases past due 90 days or more	\$ 628	\$ 1,022
Nonaccrual and restructured loans and leases	83,537	36,555
Other real estate	4,039	1,381
Former bank premises held for sale	2,490	3,356
Repossessions	10,165	1,669
Equipment owned under operating leases	154	185
Total nonperforming assets	101,013	44,168

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